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**Development of a social auditing management system to
measure responsibility in a supply chain**

Case Company: Pramia

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Thesis Abstract

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The purpose of this study was to develop an auditing system for a case company, Pramia, which would measure and manage responsibility throughout their supply chain. This was done by researching theoretical methodology in social auditing and key concepts related to the study and also a practical method used to gain insight on developing the management system. This thesis addresses the issues and needs of Pramia, provides a layout of actions for the revised management system, as well as a plan for implementation.

This study combines literature from concepts such as supply chain management, corporate social responsibility, social auditing and alcohol policy with practical execution of social auditing in order to obtain relevant knowledge in practical implications of social auditing with a view of developing a management system for Pramia Oy.

The empirical model features nine principle indicators which Pramia used in determining the ethicality of their suppliers. Executing the empirical model of social auditing, gaps were found in Pramia's social auditing, lacking key indicators in the economic dimension of corporate social responsibility. Key development issues also emerged when the study indicated that the principles were not applicable to all of Pramia's suppliers.

By distinguishing correlations between the theoretical literature, empirical data and findings, a development plan was presented for Pramia. The company should utilize tools and resources, such as the triple-bottom-line concept and introduce all three dimensions of responsibility into their key principles, become a member of organizations which aid in ethical auditing and reporting, build a company report and implement a third-party social auditing system, and create sector-specific auditing principles which apply to each sector for their suppliers.

These actions should be implemented and carried out at the same rate with Pramia's internationalization and growth process.

Key words: supply chain management, responsibility, sustainability, corporate social responsibility, alcohol policy, social auditing

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List of Abbreviations

Supply chain management	SCM
Council of Supply Chain Management Professionals	CSCMP
World Trade Organization	WTO
European Union	EU
Asian Economic Society Association	ASEAN
North American Free Trade Association	NAFTA
Corporate Social Responsibility	CSR
World Health Organization	WHO
Customer Satisfaction Index	CSI
Corporate social performance	CSP
Triple bottom line integration	TBL
Social auditing	SA
New Economics Foundation	NEF
International Organization of Standardization	ISO
Social Accounting 8000	SA8000
Council on Economic Priorities Accreditation Agency	CEPAA
Social Accountability International	SAI
International Labour Organization	ILO
Global Reporting Initiative	GRI
Business Social Compliance Initiative	BSCI
Supplier Ethical Data Exchange	SEDEX
Associate Auditor Group	AAG
European Alcohol Action Plan	EAAP

1 INTRODUCTION

1.1 Purpose of this study

The purpose of this study was to develop an auditing system for a case company, Pramia which would measure and manage responsibility throughout their supply chain.

The first steps of the study were carried out in order to research methodology in auditing, measuring and developing responsibility and ethical practices within the supply chain. This research was, then, applied to a case company, Pramia, using the auditing methods and standards in compliance with Finnish alcohol monopoly Alko's regulations, 2012; in compliance with the Business Social Compliance Initiative (Ethical Principles), Responsible Procurement System and Code of Conduct. All products, beginning from January 2012, which are sold or offered to Alko's shelves shall be audited for country of origin and measured on ethicality of production and/or manufacturing. Therefore, case company Pramia needed to apply this new responsibility auditing method in order to develop a system of management, as well as a tool to resolve further issues.

The researcher carried out a responsibility audit based on pre-released, alcohol industry-specific standards released by Systembolaget and used this auditing standard to socially audit Pramia's 37 suppliers. Finally, the theoretical research was combined with the practical portion to develop a management system which maintains and measures the responsibility of Pramia's supply chain, as well as a means to develop the responsible practices throughout the entire supply chain, a control system, a standard for corrective actions for unethical practices, and measures which must be taken with uncooperative suppliers. This management system will then be further developed to outline and guide case company Pramia in selecting future and potential suppliers, with the consideration of responsibility and ethical practices.

The goal of this study is, ultimately, to develop an auditing system regarding the responsibility and ethical practices of suppliers which will be adapted and implemented into Pramia's operations.

1.2 Research questions and methodology

Are Pramia's products ethically manufactured? This question was asked by the case company prior to the study and provided the basis of motivation for the research. Case company Pramia was not fully aware that an entire auditing system would eventually need to be developed, in response to Alko's regulations, 2012 regarding the BSCI responsible purchasing. Using the theoretical research and empirical data, the research questions emerged as the process progressed and developed:

Based on the premise of this study and the final objectives, the researcher has identified the main research question. This question is then resolved using two support questions, providing the problems to solve in order to understand and develop the solution.

Main research question: How does one develop a system for determining whether or not Pramia's products are ethically manufactured?

Support Q1 What kind of methods should be used? What standards should be used?

Support Q2 What should be the premise of criteria for achievement/acceptance?

The main research question will be answered through analysis of literature surrounding the case situation, the concepts which apply and through practical analysis. The concepts used for case company Pramia are Finnish alcohol policy, corporate responsibility, supply chain management and social auditing.

Support Q1 is answered by comparing different practical methods used today and applying them to the case. By analyzing various methods, it aids in determining which methods best suit Pramia and its needs.

Support Q2 is answered by focusing on Pramia's needs and working in order to fulfill those needs. Previously, Pramia needed to realize, simply, whether their products are ethically manufactured. However, their needs develop as the research process progresses.

1.3 Key concepts

In order to sufficiently satisfy the purpose and achieve the goals of this study, several different theoretical topics, as well as observation of practical methods were researched.

Responsibility auditing within a supply chain: In order to identify the needs, it was first necessary for the researcher to form a complete background regarding supply chain, management and strategy. This is covered in section 2, which involves concepts of the supply chain. To elaborate slightly on the concept, the researcher introduces means to manage the supply chain, as well as motivational reasons companies should implement such measures.

The following concept which is emphasized is corporate social responsibility in section 3. The research begins by introducing basic concepts and definitions, extending into aspects of an organization which are influenced positively and negatively. The focus moves into the focus of corporate responsibility in the alcohol industry, as it is relevant to the study. Alcohol policy is introduced in order to understand the motives of today's Finnish alcohol monopoly Alko and the reason for its presence in Finnish society. This also provides background information for the effects on case company Pramia.

Application of corporate social responsibility in the alcohol industry is elaborated in section 4, using theoretical analysis on methods of implementation into business operations and more specifically, the supply chain. With this key aspect, the focus narrows into specifically applying responsibility into the supply chain, social auditing and other various methods used to measure; this is highlighted with the discussion of practical methods, organizations and initiatives used today. The section is closed using Systembolaget to reiterate the background for the case company Pramia and its current business environment.

The main concepts in section 5 are introduced in order to provide background information and illustrate the eventual motivation and purpose for this study by observation of the case country Finland, the alcohol industry, Alko's release of new regulations and followed through with the case company Pramia. The concepts discussed in this section are the evolution of today's Finnish alcohol policy, along

with the presence and operation of Finnish alcohol monopoly Alko. The Nordic monopoly Code of Conduct is introduced; meanwhile Swedish alcohol monopoly is elaborated upon, exemplifying its corporate social responsibility practices and the influence of the organization regarding Alko and its ultimate effect for case company Pramia.

1.4 Structure of the study

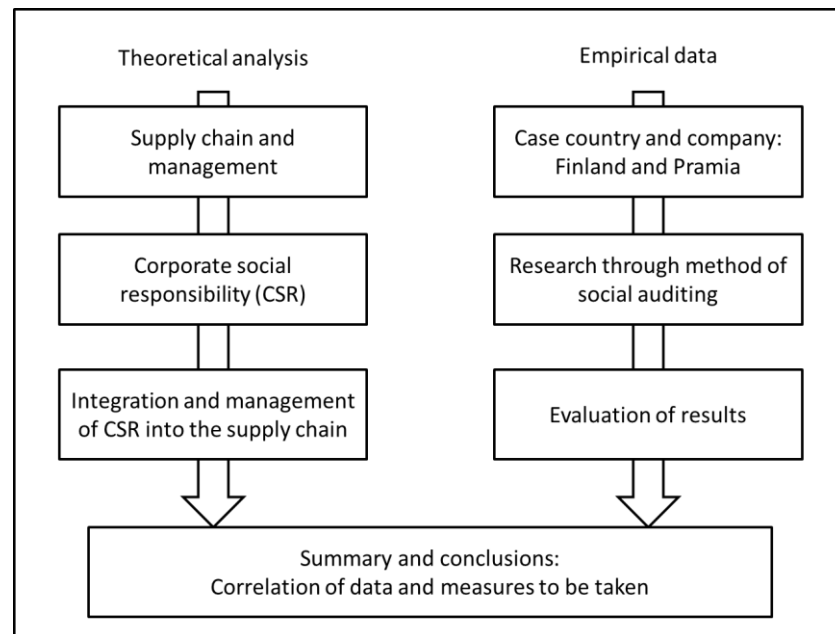


Figure 1 Structure of study

The structure of the study reflects the research process, illustrated in Figure 1. Both theoretical and empirical portions are parallel, connecting well and providing a strong argument for the conclusive statements.

The structure of the study is broken into two key parts: theoretical and empirical. The theoretical portion consists of focus on key aspects, previously mentioned in section 1.3. The empirical portion (sections 5- 7) presents background information in order to understand the case company, situation and motivation for the study. Section 6 presents the research methodology along with explanations and motivations for doing so, in both the theoretical portion and practical research project carried out. This section directly continues to section 7, where evaluation and analysis of the results is presented. Furthermore, it provides more detailed observation for pending actions and conclusions in section 8.

2 SUPPLY CHAIN STRATEGY

2.1 Functions and purpose of the supply chain

According to Bhatnagar, though companies working within a supply chain operate sector- and market-specifically, using separate purchasing organizations dealing with their own supply chain respectively, including the general operations, planning, transportation and marketing of that particular supply chain, a common set of challenges arise as a company needs to integrate all of these operations in order to achieve a single or multiple objectives in order to benefit the overall operations of the firm. (Textbook of Supply Chain Management 2009, 3)

The supply chain flows upstream and downstream – similar to that of a value chain, from the mining of raw material downstream to the end product user, and may even continue to post-consumer waste products. The basic structure of the supply chain is “a set of three or more companies directly linked by one or more of the upstream and downstream flows of products, services, finances and information from a source to a customer.” (Skjøtt-Larsen, Schary and Mikkola 2007, 20) All definitions of the supply chain lead to a similar concept: that they supply chain is a series of connections between two or more suppliers and the eventual customers until a product or service settles on its end-user. (New and Westbrook 2004, 73)

Figure 2 illustrates the development of the traditional structure of supply chains in contrast to a more developed structure for today's faster moving markets. The older structure on the left shows the vertical integration, which was aimed at gaining the maximum amount of efficiency through benefits of economies of scale. In a vertically integrated structure, the five areas of operation (raw material, transportation, manufacturing, distribution and retail) all co-existed as different departments within the same organization. This is not applicable to all market structures in present day, as vertical integration excels in a slow moving market. (Bhatnagar 2009, 13)

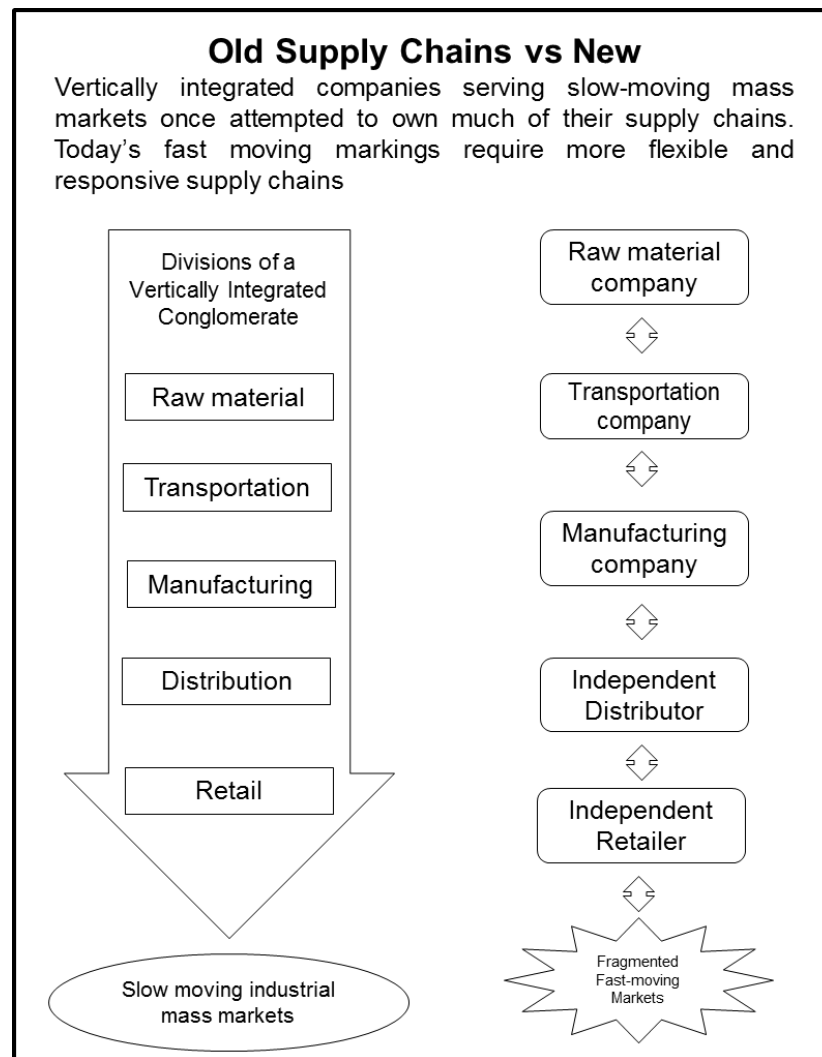


Figure 2 Old supply chains vs new

(Bhatnagar 2009, 13)

In order to contend with more developed markets which gained speed as the information age made way, companies had to focus on one particular core competency in order to gain competitive advantage. This can be seen in the supply chain model on the right half of Figure 2 above, called “virtual integration.” (Bhatnagar 2009, 13) This concept is introduced in today’s academic setting, focusing on the core mechanisms of the “corporate interaction between trading partners and the choices firms make in regards to downstream distribution.” (New and Westbrook 2004, 74)

Companies now focus on a specific step or stage of the supply chain, or even different stages of manufacturing, in order to keep up with “rapid rates of change and keep learning the new skills needed to compete.” Today’s companies are given the option of choosing the competency and positioning within the supply chain in order to best meet its own needs. (Bhatnagar 2009, 13)

Furthermore, with supply chains becoming increasingly cross-boundary, it is important that companies realize the greater complexities and risks that are involved during the internationalization process. In today’s globalized environment, distances between points in the supply chain have increased, yet transactions and operations are still expected to operate at the same pace. Differences in infrastructure may cause disruptions, along with different economic stabilities between countries and political boundaries. (Skjøtt-Larsen, Schary and Mikkola 2007, 399) Regardless of the type of supply chain, the organization typically deals with five main departments; production, inventory, location, transportation and information, (Bhatnagar 2009, 3) in which decisions are made individually, and most of the time without dealings or communications between departments.

Business negotiations regarding these purchases typically function the same way across the board, working to minimize costs while maximizing output, efficiency or profit. Because these business communications and purchases are accomplished independently among departments, purchasing contracts usually rely on previous encounters and dealings or similar business communications, generally focusing on cost and quality, without much regard to other departments. Bhatnagar identifies that a need exists for these functions to cooperate simultaneously and introduces the concept of supply chain management as a strategy which integrates all of the processes, through which a common, shared objective can be achieved. (Textbook of Supply Chain Management 2009, 1)

2.2 Management of the supply chain

Supply chain management (SCM) deals with all of the steps of the supply chain which a single company deals with for every single product moving through across a wide range of each supplier and purchaser relationship within the company, assuming responsibility for the management of cost minimization and profitability,

while also confronting disruptions that may occur, which can be transportation issues, cost rises in fuel or labor strikes.

Blanchard analyzes the supply chain to be the “sequence of events and processes” of a product from the beginning of its existence to the disposal of the product (Supply Chain Management Best Practices (2nd Edition) 2010, 6). This includes the procurement of the raw materials needed to create the product or parts, each purchase and trading transaction between each company involved in creating the product and its parts, transportation and distributors.

The Council of Supply Chain Management Professionals (CSCMP) is an organization which leads in the development and research in the SCM field. The organization exists as a means to “provide opportunities for supply chain professionals to communicate, identify and conduct research which adds to the knowledge base of supply chain theory; and also to practice and create awareness of the significance of supply chain to the economy.” (CSCMP 2012) The CSCMP informs professionals of the formal description of SCM:

Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies. Supply Chain Management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, finance and information technology. (CSCMP 2012)

Supply chain management is considered a business strategy which aligns operations across a company and directs these processes to an objective or goal, both upstream and downstream. This strategy extends from integration of an organization’s internal SCM operations to all companies throughout the supply chain, which should together coordinate supply and demand management throughout the entire chain.

2.3 Growing importance of SCM

With globalization shrinking international markets and extending the reach of smaller companies, supply chain management is an ever-increasing subject for many firms in regards to both the flow of goods and information. Through thorough research, analysis and a relatable literature-study of sustainable and responsible supply chain management and practices, a team of researchers has been able to identify four significant factors regarding the increasing importance of SPM. This team of analysts has identified four major factors contributing to the rapid growth of SPM.

First, the reduction in trade barriers plays perhaps the most influential role. The World Trade Organization (WTO) is named first as being among one of the first successful agreement to “liberalize trade and investment” and provides a “basis for eliminating discrimination and other barriers in trade.” (Skjøtt-Larsen, Schary and Mikkola 2007, 402) Furthermore, the team of analysts uses the European Union’s (EU) free trade agreement, the Asian Economic Society Association (ASEAN) and the North American Free Trade Association (NAFTA) as prime examples of inter-country trade barriers which have been broken down.

This is often the most influential aspect for companies, as internationalization of any company means growth, resulting in the need for a more efficient management of the internal supply chain. (Burritt, et al. 2011, 4) The EU free trade agreement is seen as the strongest agreement regarding trade barriers, “dismantling barriers to the free movement of labor, capital, goods and services” involving over 25 countries, with a very realistic potential for future enlargement. (Skjøtt-Larsen, Schary and Mikkola 2007)

Success in utilizing less restricted trade barriers can also depend on to which countries an organization has expanded and the motives for expansion. It can be difficult for an organization to present information and reasoning transparently to their stakeholders and the public. (Burritt, et al. 2011, 4) This is also indicated by developing trends in today’s business operations, involving outsourcing, the decrease in border restrictions and cross-border working. These trends present opportunities for development of an organization and its SCM operations. (Storey, et al. 2006)

Storey states that in order to keep up with these trends, the organizations in a supply chain must work toward cooperation, rather than competition with firms participating in this supply chain. (Supply Chain Management: theory, practice and future challenges 2006) This trend is mentioned as a general movement from “individual country barriers toward regional arrangements without barriers among countries within the agreement, and higher barriers to those outside.” (Skjøtt-Larsen, Schary and Mikkola 2007, 403) While this is highly beneficial to countries and companies acting inside of those barriers, it can be seen as discriminatory toward those outside, who face a wider range of obstacles and challenges upon market entry.

The second aspect mentioned is the development of modern logistics structures, which encourage more efficient and cleaner transportation of products and people. With globalization underway, not only does logistics deserve an increase of attention, but it has successful SCM operations can result in new business opportunities for freighting service companies, third party logistics companies and other transportation workers. (Storey, et al. 2006) This has certainly guided a more sustainable mindset regarding SPM, considering that structures must comply with safety and security regulations, while also creating a long-term sustainable environmental and economic presence. (Burritt, et al. 2011, 4-5)

Furthermore, the third aspect is that markets are developing with sustainability in mind; consumers are looking for greener and/or fair trade products, impacting operations and manufacturing all the way up the supply chain. (Burritt, et al. 2011, 5) This, in turn, causes companies to be aware of each step in their supply chain in regards to the product. It is in this situation, that markets are developing and retailers – not only consumers – are seeking products which are sustainably produced or manufactured, and at which point this study becomes relevant.

Finally, the fourth point stated is the development of information flow, resulting in faster responses and changes in market; this correlates, also, with the logistics flow of goods and supplies and an organization’s geographical proximity. As outsourcing practices increase, especially regarding intangible products, SCM is taking more notice, as companies must recognize that more efficient flows of assets are valued. (Storey, et al. 2006) With the presence of rapid-response information

systems, consumers and business cooperates alike are expecting more immediate responses in all aspects of the supply chain, from delivery to production to negotiations. (Burritt, et al. 2011, 5)

These four contributing factors, together, conclude that sustainable supply chains are playing an increasingly larger role in the success of management. A further analysis from Bhatnagar highlights the growing demand for SCM in corporations, as both companies and consumers enjoy benefits through the following improvements

1. Reduced operational costs
2. Improved flow of supplies
3. Compelling bottom-line benefits to the enterprise
4. Reduction of delays in distribution
5. Increased customer satisfaction

(Bhatnagar 2009, 4)

This is also complemented by motivation in corporate operational flaws, seen as a factor denoted from poor SCM. Companies face challenges in regards to the diminishing quality of goods, delays of tangible and intangible goods throughout the supply chain, “lack of commitment and therefore investment by suppliers,” a lack of motivation for development and research in order to innovate and improve processes, and a poor understanding of cooperative partners’ and customers’ dilemmas or constraints. (New and Westbrook 2004, 133)

With more benefits being offered, the globalized market sees competition intensifying. Companies who wish to internationalize their SCM operations and strategies face challenges in trying to gain these benefits. In growing the network of global suppliers, customers and other connections, SCM becomes more difficult for the firm to maintain, as does the management of the supply chain itself. The firm must be willing to implement adaption to different national and international environments in order to contend with competitors. This must be implemented into their market strategy and SCM strategies. (Skjøtt-Larsen, Schary and Mikkola 2007, 400)

With these one or more of these benefits, however, a company can enjoy higher effectiveness of its operations. Moreover, if the firm is operating in a highly competitive market against those with similar quality and prices, the supply chain delivers benefits through cost-efficiency. Thus, the major objectives of basic supply chain management are fulfilled. The supply chain can flow uninterrupted as materials and information may flow more smoothly. Costs are improved as inventory investments are kept low, while quality is maintained. While the selection process of suppliers may be compromised or extended, it is more beneficial to the entire supply chain to “develop competent suppliers, while purchasers are able to purchase quality items at an appropriate price.” The company’s position in the market and against competition is improved and marketing and sale objectives may be realistically met. (Bhatnagar 2009, 4-5)

3 APPLICATIONS OF RESPONSIBILITY IN BUSINESS

3.1 The concept of Corporate Social Responsibility

Corporate social responsibility (CSR) is a concept affecting a wide range of a company's internal and external aspects undergoing several varying definitions, but representing the same general concept.

Hopkins asks the question "Is a business's only job to make profit?" (Planetary Bargain: Corporate Social Responsibility Matters 2003, 1), and answers roughly that CSR concerns dealing with the stakeholders of the company responsibly. By stakeholders, Hopkins does not mean solely private or public investors of the firm, but those who have contributed anything to the company, including "shareholders and potential investors; managers; employees; customers; business partners and contractors or suppliers; the natural environment; and the communities" (Planetary Bargain: Corporate Social Responsibility Matters 2003, 3).

From a more sustainable perspective, Kao answers that CSR is a method of "giving back" to society and the environment after having taken so much and reaping the profit for themselves (Sustainable Economy: Corporate, Social and Environmental Responsibility 2010, 9). Continuing, Jamali defines the core of CSR to be "the idea that companies are accountable for their actions not just formally to their owners but also in less well-defined ways to a group of wider key stakeholders." He also goes on to note the rising prominence CSR has gained in the modern internationalized setting. (Insights into triple bottom line integration from a learning organization perspective 2006)

All of these definitions offer the same concept and philosophy to businesses today; those businesses should not only profit, themselves, from their operations, but the community and those who have given should also profit.

The concept of CSR is made up of three dimensions: economic, environmental and social responsibility. Responsibility initiatives today have regarded these three dimensions, as they encompass the issues in the reporting framework, developed by the Global Reporting Initiative. These three aspects of CSR combine to cover

the standard reporting measurements. (Global Reporting Initiative n.d.) Table 1 briefly describes each dimension.

Table 1 Key dimensions of CSR

Dimension	Description	Example
Economic	Moving beyond conventional financial accounting by according attention to new measures of wealth such as the human/intellectual capital that firms develop	Reducing the cost of doing business through rigorous business integrity politics Increasing productivity through a motivated workforce
Environmental	Studying the implications of resource consumption, energy use and the effects of the firm on ecological integrity	Environmental policy; environmental audits and management systems and environmental liabilities
Social	Maximizing the positive impacts of a firms operations on a broader society	Issues of public health, social justice and inter and intra organizational equity

(Jamali 2006)

These dimensions of CSR stand outside corporate performance as the indicators companies use to represent and fulfill the standards of stakeholders and the public in being “good corporate citizens.” (Shahin and Zairi 2007)

Economic responsibility involves financial operations which involve the focal company. Jamali mentions the how being economically responsible involves “competitiveness, job and market creation and long-term profitability.” (Insights into triple bottom line integration from a learning organization perspective 2006) In order to be responsible, Jamali agrees that an organization must be sustainable in its spending and investments; therefore, a company should work to reduce costs through management of resources, as well as reducing costs across the company, while still being ethically selective of suppliers and increasing output efficiency through internal investments in company morale.

Furthermore, economic responsibility can be represented through benefiting the final customers, with the final end-products. This can be profitable for the company through maintaining quality in service and production at a reasonable price. By operating responsibly, economic responsibility is also fulfilled through the creation

of job opportunities and the fair treatment of those employees. (Shahin and Zairi 2007)

Next, environmental responsibility deals with the marks left behind or imprinted on the natural surroundings of the company while minimizing any negative impact. The surroundings include “living and non-living natural systems, including ecosystems, land, air and water.” The rise of environmental regulations and restrictions has forcibly put companies in a position to be environmentally mindful, with such initiatives as emissions output, waste management, recycling and energy efficiency. (Jamali 2006)

Environmental responsibility and sustainable practices are terms which often go hand in hand. Sustainability is quoted as measureable “development that meets the needs of the present without compromising the ability of the future generation to meet their needs.” (Carter and Rogers 2008) Companies with environmental responsibility on their agenda should take measures to “maximize efficiency and productivity of all assets and resources” and reduce any practices that may indirectly affect the “enjoyment of the planet’s resources by future generations.” (Jamali 2006)

The most recent development in CSR is the dimension of social responsibility, which is based on the social systems in which an organization operates. A company should be mindful of the varying groups which make up the internal groups and surrounding communities, as well as external interest societies. (Jamali 2006) When operating ethically, companies are avoiding harm and decreasing risk in their business environments. These also include legal duties of complying to the law and national regulations. (Shahin and Zairi 2007)

When speaking about the social dimension, Jamali states that “the social bottom line incorporates issues of public health, community issues, public controversies, skills and education, social justice, workplace safety, working conditions, human rights, equal opportunity and labor rights.” (Insights into triple bottom line integration from a learning organization perspective 2006) When competing in a CSR competitive market, companies are also creating opportunities, benefiting the society as a whole. With globalization as a key driver in several of the key concepts in this study, business and transportation infrastructures in a way that is

economically sustainable and responsible, but also building competitive advantage for those companies who practice it. (Zadek 2006)

Gottschalk discusses how closely linked CSR and corporate reputation align and effect each other. With a strong ethical background seen through practices and company actions, the company is safeguarded against risk and damage to its reputation. CSR policies are designated as control systems which “measure and control environmental and social issues and threat,” also acting as a “tool to protect reputation value.” (Corporate Social Responsibility, Governance and Corporate Reputation 2011, 36)

Furthermore, Gottschalk goes on to discuss the ethical reasons for the implementation of CSR policy into business practices, as “it represents the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce as well as the community at large. (Corporate Social Responsibility, Governance and Corporate Reputation 2011, 36)

3.2 Recognition of CSR in business

In more recent times of business operations, consumers and business partners have been fortunate enough to realize reputability of companies or corporations which abide by some sort of CSR policy or regulations, and the social-, environmental- and corporate impacts which their actions influence. With a faster wildfire reaction of word-of-mouth nowadays, actions of companies today are more transparent, making it more difficult for companies to operate discreetly.

This, in turn, influences their reputation outstandingly. Reputation could be better known as the developed image of a corporation or firm based on its past actions and present operations (Balmer and Greyser 2003, 19). Gottschalk highlights the importance of reputation over a wide range of contributing factors seen from all angles of the firm: A company in good standing can win customer and business-to-business preference in a competitive market. Furthermore, it provides a means to move products into higher pricing groups, for example charging premium prices. Lastly, a strong positive reputation can strengthen and further build “stakeholder

support and loyalty.” (Corporate Social Responsibility, Governance and Corporate Reputation 2011, 27)

According to Hopkins, motivation to increase credibility through means of responsibility is increasing faster than ever. Since 1979, awards and achievements from corporate social performance (CSP) have at least doubled. There are several varying categories, ranging from broad CSR component categories to individual achievements awards. Hopkins also notes the problem regarding the awards systems and agency, as each has their own, often undisclosed, criteria. Thus, it is difficult to compare awards and companies when there is no basis of criteria for identifying measures. (Planetary Bargain: Corporate Social Responsibility Matters 2003, 6-7)

3.3 CSR policies and regulations in the alcohol industry

While most international companies today have their own CSR policies and regulations, many also follow external CSR regulations or are members of such organizations. Gottschalk discusses a study which has shown four major characteristics of socially responsible companies. (Corporate Social Responsibility, Governance and Corporate Reputation 2011, 63)

The first is that the company is not driven solely on the basis of profit. Second, the company should also follow some policy or regulations which prevent any unethical crime within the company. Following, the company should encourage transparency internally and externally, with control methods in place and an allowance of third-party auditors to further support the company’s responsibility. Finally, the company should internally discourage any violations and wrongdoings regarding these compliances (Gottschalk 2011, 63).

When considering business within the alcohol industry, responsibility does not come to mind. It may not be considered, but business within the alcohol industry, like any other, requires that companies must abide by policies and regulations enforcing corporate social responsibility. It is not surprising, that in some ways, CSR within the alcohol industry is stricter than those in other industries, as alcohol weighs heavily on public health.

According to the World Health Organization (WHO), the “global burden related to alcohol consumption, both in terms of morbidity and mortality, is considerable in most parts of the world.” (World Health Organization Staff 2004, 9) In the 2011 Responsibility Report released by Systembolaget, the negative effects of alcohol are highlighted: increased risk of cancer, liver damage, heart-related illnesses, mental illness and personal injury. The workforce is also negatively impacted, as alcohol-related sicknesses cause absences and long-term sick-leaves. The impact on society as a whole is directly affected by the abuse of alcohol. (Systembolaget, Responsibility Report 2011 2011)

Due to such controversial factors, alcohol consumption management and control is an important topic for governments or administrative bodies. The EU, in particular, has identified four main interests and concepts which need to be developed: “the fiscal interest, the economic development interest, the interest in maintaining public order and safety and, finally, the interest in maintaining reproduction and health of the population.” (World Health Organization Staff 2004)

In order to minimize the harmful effects of alcohol on society, restrictions must be put in place to ensure that, though alcohol is harmful and can be abused, recreational alcoholic beverages can still be enjoyed while maintaining responsibility in all aspects. The alcohol industry itself does not have any major commanding CSR initiatives; these are represented through government or state regulated alcohol policies. This is the commanding factor in the development of alcohol policy and responsibility regulations in maintaining such a market.

3.4 The role of alcohol monopolies

Governing administrative bodies have the option of nationalizing or monopolizing the “levels of control over the sale and production of alcoholic beverages. The premise of an alcohol monopoly is to create a more responsible, ethical retail environment, which can reduce excess amounts of alcohol consumption and abuse. It is typical that monopoly retail outlets would have fewer, select locations with limited opening hours of operation. (World Health Organization Staff 2004, 16)

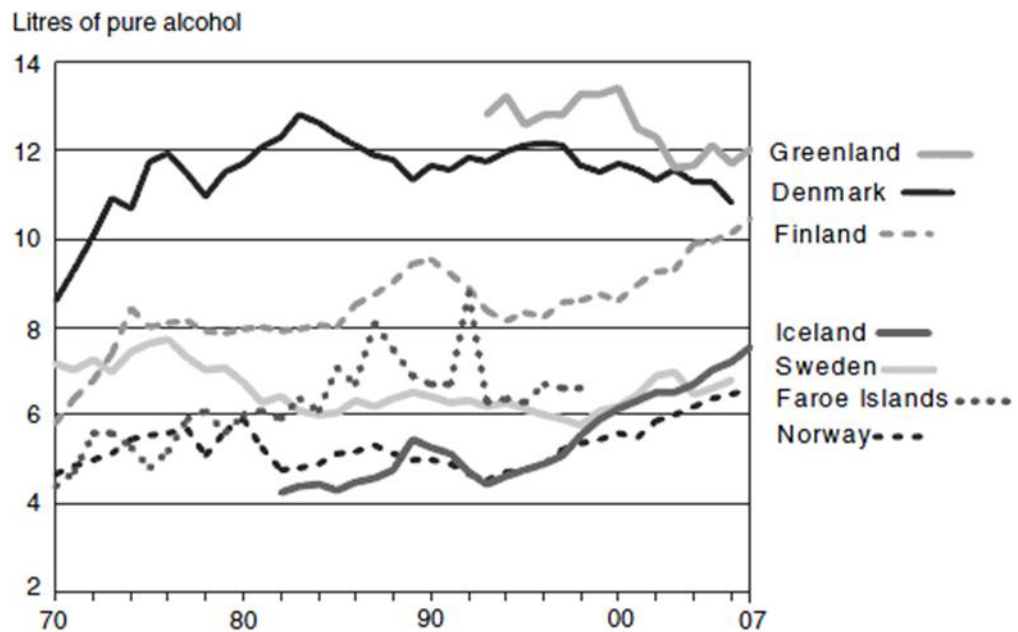
The Nordic countries, excluding Denmark, have seemed to favor the alcohol retail monopoly model, even working in cooperation with each other when developing

and releasing new policies and regulations. These monopolies are Systembolaget in Sweden, Alko in Finland and Vinmonopolet in Norway. Other notable alcohol monopolies include LCBO in Canada, some state monopolies in the United States and a few select central and eastern European countries. (World Health Organization Staff 2004, 16)

Within Finnish Alko's control, the "sale of minors, intoxicated people or those suspected of intending to hand over alcohol to others" is maintained responsibly. (Tikkanen 2011, 49) Swedish Systembolaget states that their responsibility is measurably creating difference in Swedish society, as opposed to the nonexistence of an alcohol retail monopoly; the availability of alcohol is restricted, therefore decreasing alcohol consumption. Through the use of limited hours of purchase-availability and select locations, this creates more responsible purchases; Systembolaget also prohibits sales to minors under the age of 20, any persons who are noticeably already intoxicated, or under the suspicion of purchasing alcohol with the intent of resell or distribution to minors. (Systembolaget, Responsibility Report 2011 2011)

The presence of an alcohol monopoly can completely damage an existing or potential market, "eliminating price competition and enable high retail prices," which can be costly to willing customers. However, the WHO states that the monopoly can "reduce both physical and economic availability by reducing private-profit opportunity and marketing and promotion efforts." (Global Status Report: Alcohol Policy 2004, 16)

Table 2 Consumption, litres of pure alcohol per capita aged 15 years and over



(Jääskeläinen 2008)

Upon observation of Table 2, the two countries operating without state monopolies, Denmark and Greenland, consume the highest amounts of alcohol in contrast to the lower alcohol consumption in countries with operating alcohol monopolies. (Jääskeläinen 2008) Furthermore, the WHO concludes that alcohol retail monopolies are, despite eliminating potential markets and any competition, effective in reducing alcohol consumption due to limited accessibility. (Global Status Report: Alcohol Policy 2004, 16)

3.5 Swedish alcohol monopoly Systembolaget

The Swedish alcohol retail monopoly model was established in the mid-1800s (Systembolaget, Systembolaget Official Website 2012) at the height of the Swedish public's alcohol consumption. Being as the first alcohol monopoly in existence, Systembolaget is the product of a successful model which became widespread in Sweden and was formed when independent retailers consolidated to form a single retail body. Today, Systembolaget functions as the alcohol retail monopoly in Sweden on all alcoholic beverages over 2,8 % and at most 3,8 % by volume, minimizing the negatives impacts of alcohol on society while being void of a motive for profit. (Österberg and Karsson 2002, 387-388)

Upon establishment, Systembolaget operates with responsibility and a mandate governed by the Swedish alcohol act at its heart. (Systembolaget, Responsibility Report 2011 2011) It exists solely for to lessen the negative impact which alcohol imparts on society. This characterizes the realistic vision, for which Systembolaget strives: “a society in which everyone can enjoy alcoholic drinks with due regard for health considerations and without harming either themselves or other people.” (Systembolaget, Responsibility Report 2010 2010)

This enables Systembolaget to offer service at the highest quality. While Systembolaget has one of the widest, most comprehensive product ranges in the world, the alcohol monopoly strives to maintain brand-neutrality. Furthermore, the state of Sweden emphasizes the importance of brand-neutrality, requiring the alcohol monopoly to purchase the widest range of products “without favoring domestic products.” Furthermore, the report goes on to say that “Systembolaget focuses on ensuring that its purchasing process is as reliable and transparent as possible.” (Systembolaget, Responsibility Report 2011 2011) According to the official webpage the “promotion of individual products or producers is avoided, allowing the advice (of the staff) to be provided entirely on the customer’s terms.” (Systembolaget, Systembolaget Official Website 2012)

Systembolaget also puts heavy efforts into the customer service which is monitored and developed using their own Customer Satisfaction Index (CSI). (Systembolaget, Responsibility Report 2011 2011) With the customer in mind, Systembolaget also relies on opinion of the public for support. Using their Opinion Index, they are able to observe public support, which is one of the “strategic key performance indicators.” The alcohol monopoly has been monitoring reports regarding public support for over ten years. Since the process first began in 2001, Systembolaget’s support has increased from 49 % to 68%. With strong public support, Systembolaget’s public communication is more effective, and the alcohol monopoly utilizes it through education in order to decrease alcohol-related harm. (Systembolaget, Responsibility Report 2011 2011)

With their strong business concept and ideology, Systembolaget successfully manages and limits the negative impact of alcohol consumption. Today, Systembolaget’s retail network extends to various locations with 418 stores, and over 500

agents to cover more rural areas. They consider their highly competent staff an important asset, as they complete extensive training so that they may perfectly advice and inform customers on food and drink. When entering a Systembolaget retail outlet, a customer can purchase alcohol responsibly without the encouragement of buying more than their initial intention. (Systembolaget, Responsibility Report 2010 2010)

4 CREATING AND MAINTAINING A RESPONSIBLE SUPPLY CHAIN

4.1 Reasons for implementation of CSR into the supply chain

To refer back to the growing importance of SPM in section 2.3, the analysts found and summarized six external factors a company should consider for integration of sustainability in its SPM in order of descending importance:

1. Legal requirements and command-and-control regulations
 2. Customer demands on the focal company
 3. Response to stakeholders
 4. Competitive advantage
 5. Internal risk management and motives for minimization
 6. Increased outsourcing – particularly to foreign suppliers
- (Burritt, et al. 2011, 6)

The first factor (1) is seen as the most commonly cited reason for a company to implement CSR into their organization and building a more sustainable supply chain. Customer demands (2) follow as the second most commonly cited reason for taking action, as suppliers all the way up the supply chain feel pressure from consumers. Stakeholders (3) will also pressure CSR integration into a company if they see that the prior factors have not been taken into consideration. (Burritt, et al. 2011, 6) Stakeholder response is also noted through other sources, dictating that stakeholders will often request such CSR implementations in response to the (2) customer demands through means of economic threat. (Zadek 2006)

Next (4), companies are finding that reputation, as well as risk management, is highly effected by a company's willingness to implement more sustainable practices into their supply chain; greener practices impact both company image and can be cost-effective logistically, as well as cost-savings in other departments. The following factor (5) relates directly to the others, as the role of risk management can decrease when a more responsible supply chain is successfully implemented; the team state that "risks can derive from potentially poor environmental or social

performance” and a company is better equipped against “potential disruptions of supply.” (Burritt, et al. 2011, 6)

The final factor (6) suggests that an organization should push their suppliers to implement more sustainable operations; membership enlistment of international organizations, compliance to international standards and codes of conduct regarding environmental management and CSR – readily identifying the supplier’s commitment and displaying measureable improvements in performance. (Burritt, et al. 2011, 6)

These factors are also complemented by an observance of increased ethical supply chain practices, which is in part due to the gained attention of the CSR movement in today’s business operations. New and Westbrook provide reasons why supply chain ethics should be a concern among organizations. (Supply Chains : Concepts, Critiques, and Futures 2004, 253)

They state that the supply chain and its occurring issues are often centralized activities, whereas the business ethics are merely an additional concern. Second, as Burritt has previously stated, increased globalization is playing a larger role, when regarding complexities and geographical variation throughout the supply chain. The following aspect also directly complements Burritt’s factor mentioned previously in section 2.3, which is the effect of the consumer demand on and up the supply chain; this is described as a ripple effect, producing and pressuring CSR and ethical improvements throughout the supply chain. (New and Westbrook 2004, 253 - 254)

The fourth aspect acknowledges the lack of transparency in the amount of control managers and responsible parties. This is described through “accountability in a hierarchy might be clearly delineated; this is not so in chains of economic activity punctuated by commercial boundaries.” And the final factor acknowledges the movement of company mindsets regarding business ethics and responsibility; where responsibility is distinguished and allocated between different parties and for different actions. (New and Westbrook 2004, 254)

Considering all of these factors, companies should recognize that sustainability is becoming more of a key aspect in SPM based on several factors, both within the

company and externally. In today's existing global setting, companies are receiving pressure from all directions, including clients, end-consumers and stakeholders. To internationalize, a company is more dependent on its reputation in order to gain speed in any market; a strong CSR background only reinforces a positive image and competitive advantage. (Burritt, et al. 2011, 6)

With the implementation of CSR policy into the company's practices and operations, risk is minimized when considering suppliers and any interruptions, as well as internal risk management. When looking to focus on a core competency and seek suppliers to outsource operations, a strong pre-established CSR policy is a factor to consider when selecting suppliers. To put it strongly, "companies in supply chains in a globalized setting are subject to increased risks, requiring that management strategy is adapted in order to safeguard against high-risk outcomes." (Burritt, et al. 2011, 6)

CSR competitive environments do not usually see short-term advantages. This is a primary influential factor in the challenges that companies face. Companies may see CSR focus as a distraction from that action core competence or main business operations, setting the topic apart from the "real need to maximize economic growth." (Zadek 2006) Even in today's globalized market setting, companies are hesitant to incorporate or abide by CSR regulations, much less provide internal resources for ethical supplier selection criteria (Neef 2004, 98). According to the research by Gao and Zhang, small- and medium-sized enterprises may struggle to overcome barriers when integrating sustainable practices into their operations, "including financial constraints, time constraints, personal motivation, lack of understanding/knowledge and supply chain constraints." (Stakeholder engagement, social auditing and corporate sustainability 2006)

Companies may not be willing to sacrifice the so-called bottom line, as investments in sustainable practices may not be cost efficient. This is countered by the triple bottom line argument, as seen visually represented by Figure 3 Sustainability: the triple bottom line.

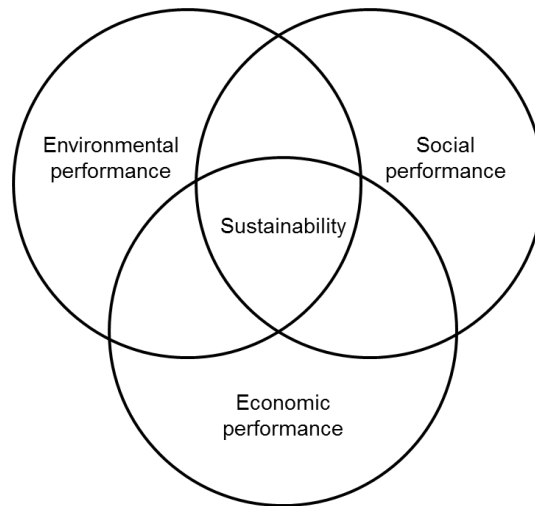


Figure 3 Sustainability: the triple bottom line

(Carter and Rogers 2008)

The original creator of the TBL concept is John Elkington, who refers to it as “a framework by which corporations can attempt to measure their performance against certain parameters based not just on economic efficiency, but social and environmental criteria.” (Cannibals with Forks 1999) This concept is used by organizations in order to measure and identify their areas of responsibility in which to develop. In application, the TBL framework provides basic components necessary to function responsibly with the rise of CSR policies and initiatives.

Jamali describes how more recently, the TBL approach is evolving as a “systematic approach to managing a complete set of a company’s responsibilities,” as the complete trio of CSR dimensions with sustainability focused at the center sets a framework, used for “measuring and reporting corporate performance against economic, social and environmental parameters.” (Insights into triple bottom line integration from a learning organization perspective 2006) When examined closer, the TBL is a system which is used to capture all the values a company must address in order to “maximize the positive impacts of their activities and generate added economic, social and environmental value.

Referring back to the three main components of CSR, Carter and Rogers strongly describes the triple bottom line (TBL) integration as a concept incorporating the three areas of CSR which “simultaneously considers and balances economic, en-

vironmental and social goals from a microeconomic standpoint.” Further, the concept suggests that when incorporated, the triple bottom line not only impacts the surrounding environment, society and community positively, but also offers “long-term economic benefits and competitive advantage.” (A framework of sustainable supply chain management: moving toward new theory 2008)

4.2 Social auditing

In the 1950s, business is introduced to the term social auditing in the “form of external investigations to assess the impact of large corporations on their workforce, consumers and the community.” The 1990s saw slight development in the field when organizations met external pressure to present social, environmental and responsible performance and accountability. In order to measure the level of responsibility, social auditing (SA) has been developed as an international and reputable process. Hopkins mentions how the New Economics Foundation (NEF) defines SA as a “process of defining, observing and reporting measures of the ethical behavior and social impact of an organization in relation to its aims and those of its stakeholders” (Planetary Bargain: Corporate Social Responsibility Matters 2003, 139).

To reiterate use of the TBL, the concept is increasingly used in organizations, a variety of initiatives, principles are standards. Elkington defines social auditing as “the process that enables an organization to assess its performance in relation to society’s requirements and expectations.” (Cannibals with Forks 1999) Sustainability, as a key strategic asset of any organization, has been “recognized as a theoretical premise for the development of various contemporary management models and business process initiatives.” (Gao and Zhang 2006)

Gao and Zhang observe social auditing as a tool in which to evaluate ethical performance, but also mention how social auditing extends pass mere reporting and presentation. It should also be noted that this should be clearly communicated to stakeholders, in order to determine whether or not the organization has fulfilled requests or performance expectations. (Stakeholder engagement, social auditing and corporate sustainability 2006) They go on to further illustrate the relationship between sustainability and the social auditing process, and depict the role of stakeholder dialogue in Figure 4.

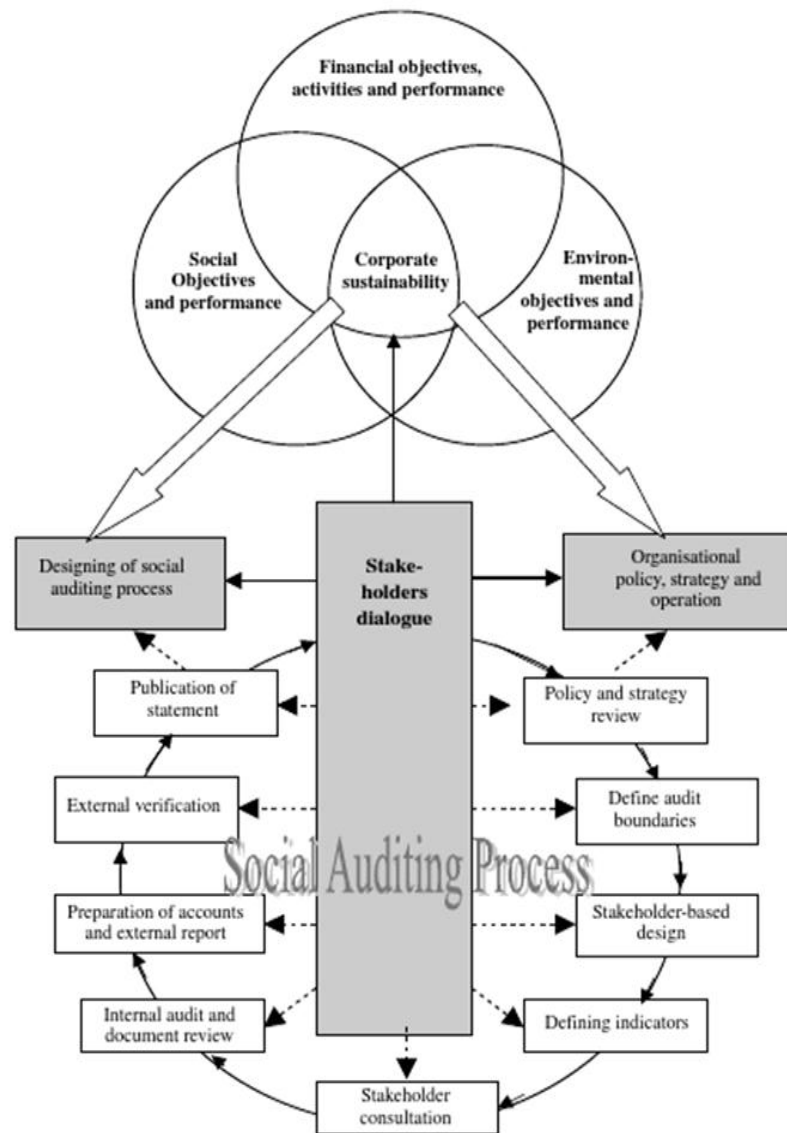


Figure 4 Sustainability and social auditing process

(Gao and Zhang 2006)

When carrying out social auditing, the key element is “relationship with the stakeholder dialogue, which is a way to balance and integrate the three dimensions of business activities.” As seen from Figure 4, stakeholder dialogue should be an integrated feature in every step of the social auditing process. The process is divided up into ten key stages: policy and strategy review, define audit boundaries, stakeholder-based design, defining performance indicators, stakeholder consultation, internal audit and document review, preparation of accounts and external re-

port, external verification, publication of statement and reports and follow-up of dialogue with stakeholders. (Gao and Zhang 2006)

When measuring responsibility through performance, Epstein provides a number of performance indicators applicable to this study. Applied to the internal context of Pramia's situation, research was gathered through use of social audit, environmental/social benchmarking and existence or corporate code of conduct. When identifying external features of measurement, Epstein suggests regulatory administrative bodies, pollution standards, hazard waste disposal regulations and local versus global standards. (Making Sustainability Work : Best Practices in Managing and Measuring Corporate Social, Environmental and Economic Impacts 2010, 169)

The concept of value, or social- and economic-related benefits are usually categorized as market and nonmarket impacts. Epstein uses these examples for market values:

- increased sales quantities due to increased market demand
- increased prices due to quality and reputation
- reduction in costs due to increased efficiencies
- increased productivity
- reduced future costs related to environmental clean-up, internal control and ethics breaches and employee and customer problems related to lack of social sensitivity

(Epstein 2010, 145)

For nonmarket values, he uses these examples:

- increased recreational benefits from cleaning up waterways (boating, swimming and fishing)
- enjoyment of greater species diversity
- increased life-span and quality of life

(Epstein 2010, 145)

With slight reference to Gao and Zhang's emphasis on stakeholder communication, Epstein highlights the importance of stakeholder communications in order for any organization to fully understand "how the stakeholders place value on social and environmental assets." (Making Sustainability Work : Best Practices in Managing and Measuring Corporate Social, Environmental and Economic Impacts 2010, 146)

4.3 Analysis of accepted standards in measuring responsibility through auditing

Several methods are used for measuring and reporting responsible development in today's markets. During the initial movement of these standards and initiatives, development of these codes of conduct did not oblige by any formal standard or process, but rather created motivation for organizations to "aspire to work toward common goals of human rights, social justice and economic opportunity." (Neef 2004, 114)

For instance, the International Organization for Standardization (ISO) is the "world's largest developer of voluntary international standards, which give state of the art specifications for products, services and good practice" aiding in the development and efficiency of industries. ISO is a standard considered across industries and sectors to recognize quality control within the product or service, but it only stands alone as a standard without reporting or responsibility development initiatives. Businesses are able to implement the use of ISO and utilize it as a tool for development of cost-efficient solutions, error reduction and increase in efficiency. (International Organization for Standardization 2012)

While national laws safeguard the most basic needs of employees, the environment and the community, a number of nonfinancial, international practices, frameworks and initiatives are used throughout organizations to ensure an agreeable standard of measure, reporting and development in these aspects of business. These international initiatives have been established for reporting, auditing and critical purposes in distinguishing and developing the ethical measures and performance of a company, as well as responsible processes throughout a supply chain.

4.3.1 Social Accountability 8000

One of the most prominently used and accepted standards, Social Accountability 8000 (SA8000) was established as “one of the world’s first auditable social certification standards”, developed by the Council on Economic Priorities Accreditation Agency (CEPAA) and is operated today by Social Accountability International (SAI). SA8000 is an international standard which was developed based around regulations of the International Labor Organization (ILO) and other key organizations which stand for human rights. (Social Accountability International 2012) The goal of SA8000 is to operate with the “participation by all key sectors, including workers and trade unions, companies, socially responsible investors, nongovernmental organizations and government.” (Hirschland 2006, 116)

Though not the largest as far as size of organization, it has extensively reached several organizations as a standard which sufficiently “fills the gap where norms and standards exist but are not always enforced in the realm of global labor rights and practices.” (Hirschland 2006) The SA8000 standardizes auditing requirements, and, as Neef claims, is “probably the most important workers’ rights performance standard to emerge to date.” He then adds that SA8000 was developed in 1997 in response to “the need for companies to have access to a common, standardized framework for good labor management and workplace environment practices, not only for company-owned facilities, but also latterly to help address labor and employment issues.” (Supply Chain Imperative: How to Ensure Ethical Behavior in Your Global Suppliers 2004, 142-143)

SA8000 houses separate, comprehensive sections of criteria: child labor, forced and compulsory labor, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration and management systems. (Social Accountability International 2012) Furthermore, the practices standardized by SA8000 set out to “ensure just and decent working conditions throughout the global supply chain for participating firms and their workers.” (Hirschland 2006, 115)

The standard establishes requirements on the following areas of responsibility: child labor, forced and compulsory labor, health and safety, freedom of association & right to collective bargaining, discrimination, working hours, remuneration and

finally, management systems. These areas of responsibility utilized as requirements and criteria will be observed repeatedly throughout other standards and initiatives, namely the Business Social Compliance Initiative Code of Conduct. SAI has also provided a means to implement these criteria into an organization's operations, as well as detailed guidelines on measures to be taken to extend ethicality further up and down the supply chain. (Social Accountability International 2012)

Furthermore, out of all the CSR initiatives mentioned in this section, SA8000 is the sole organization which demands individual certification for each manufacturing facility, rather than granting the requesting organization as a whole. (Hirschland 2006, 116) SA8000 also addresses issues regarding gaps of other requirements and standardized guidelines for organizations. A prime example is the requirement of firms to pay workers a living wage, or "what SAI refers to a 'basic needs' wage." This is also directly related to their requirement for organizations to "facilitate parallel means of independent and free association and bargaining in countries where it is not possible to form free trade unions; for example, China." (National Research Council Staff 2004, 84)

4.3.2 Global Reporting Initiative

Officially established in 1997, the Global Reporting Initiative (GRI) was developed in the United States through the practice of inviting a third-party auditor to inspect company operations, reporting the findings as seen fit. Since its beginning, it has become the one of the leading standards used measuring and presenting social, environmental and economic performance. Since the initial release of reporting guidelines in 1999, the GRI quickly grew from a simple reporting standard for business to an internationally recognized standard adopted by businesses of all kinds. (Hopkins 2003, 142)

The GRI established their headquarters in Amsterdam in 2002 and directed their focus toward more sustainable development. Also having integrated CSR heavily into their foundations, they focus on four main areas of sustainability: social, economic, environmental and governance (Global Reporting Initiative n.d.).

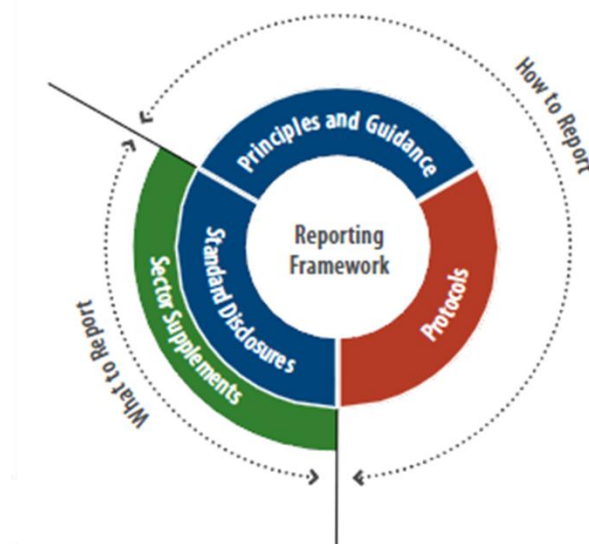


Figure 5 GRI Reporting Framework
(Global Reporting Initiative 2011)

Figure 5 illustrates the framework when reporting an organization's sustainability performance, complying with the most recently released guidelines by the GRI. According to the report, it "contains general and sector-specific content" that is applicable for use for "organizations of any size, sector, or location." Furthermore, the report is designated to for use to produce a transparent report of an organizations sustainability measures. (Global Reporting Initiative 2011) The principles and guidelines section outline standards for defining the content and quality control of the information published. The protocols provide vital information such as definitions and assistance for each Performance Indicator, which create foundation for the standards. The sector supplements advise each sector on sector-specific issues. The outcome of which is a complete and augmented reporting framework, when used should be a comprehensive sustainability report from which an organization is able to distinguish their current situation, a disclosure of performance measures in strategy and sustainability profile, as well as performance indicators which specify exact issues and aspects in which to develop. (Global Reporting Initiative 2011)

The categories in the most recently released guidelines by the GRI are divided into six different groups: economic, environmental, social: labor practices and decent work, human rights, society and product responsibility. When using these guide-

lines, a company is able to transparently report their operational and organizational measures toward a more sustainable performance. According to their most recent guidelines, “sustainability reporting is the practice of measuring, disclosing and being accountable for organizational performance while working towards the goal of sustainable development.” (Global Reporting Initiative 2011)

4.3.3 Business Social Compliance Initiative

The Business Social Compliance Initiative (BSCI) recognizes agreements and standards in accordance to the ILO’s Conventions (BSCI 2009). Their code of conduct focuses heavily on the social dimension of corporate responsibility, strictly enforcing that members adhere to compliance by legal contract. After having applied, an organization must then restructure and take proper measures to exhibit implementation of the Code of Conduct. Supplier companies have ten criteria to meet:

1. Legal Compliance
 2. Freedom of Association and the Right to Collective Bargaining
 3. Prohibition of Discrimination
 4. Compensation
 5. Working Hours
 6. Workplace Health and Safety
 7. Prohibition of Child Labour
 8. Prohibition of Forced and compulsory Labour and Disciplinary Measures
 9. Environment and Safety Issues
 10. Management Systems
- (BSCI 2009)

As mentioned previously, once an organization becomes a member, (1) compliance is bound by legal contract. According to the BSCI Code of Conduct, “all applicable laws and regulations, industry minimum requirements, ILO and UN Conventions, and any other relevant statutory requirements” should be applied to the organization’s operations. The following criteria (2) ensures that personnel within the company shall have rights and freedom to join, form and organize trade unions without negative actions or repercussions from the company. Furthermore, the

company shall not disrupt or hinder, in any way, the “establishment, functioning, or administration of such workers’ organizations or collective bargaining,” while also ensuring that personnel or representatives of these unions or collective bargaining are “not subjected to discrimination, harassment, intimidation, or retaliation” for membership to these labor unions or collective bargaining groups, or even participating in involved activities. (BSCI 2009)

The third (3) standard enforces the intolerance of discrimination of any sort in the operations of the company: hiring new workforce, transfers, remuneration, training and work-related education, promotion, termination or retirement. The fourth (4) criteria acknowledges the compensation of pay in respect to regular working hours, over time hours and additional over time equivalents; these wages should “meet or exceed minimum standards.” The BSCI also encourages employing companies to exceed minimum standards in such situations where legal labor wage standards fail to enforce a sufficient minimum for a means to live. A company is encouraged to compensate or provide additional disposable income so that they employee may meet these needs. This agreement must be regularly detailed and made clear, so that the employee is aware of the wage terms. Employing companies must also ensure that wage and salary operations adhere to applicable national laws, and illegal deductions or intrusions are strictly forbidden. (BSCI 2009)

Next, the BSCI states that (5) working hours “shall comply with applicable national laws and industry standards on working hours and public holidays.” This criterion also covers over time working hours and the maximum allowed working hours during a week, by national law or industry standards. The employing company shall also provide a safe work environment (6) which effectively prevents and minimizes any work-related personal injury or harm. In work only facilities, the company should take measures to provide “provisions and personal protective equipment, access to clean toilet facilities, access to potable water and sanitary facilities for food storage” if applicable. Furthermore, any provided living facilities, temporary or permanent should be clean, safe and habitable while sufficing to meet the basic needs of those occupants or tenants. (BSCI 2009)

According to the BSCI, the strictest and most stringent involves (7) child labor. These regulations are enforced by national law, the ILO and UN Conventions. “Any forms of exploitation of children” or conditions which “resemble slavery or are harmful to children’s health” are prohibited. When young employees of school age are working, measures such as policies and regulations applying to the child(ren)’s working situation should be established and reported within the company. Young workers shall be employed with complementing regard to compulsory education regulations, and they may only work out of schooling hours. Children of school age may not handle a day exceeding ten hours with a combination of travel, work and schooling; it is absolutely forbidden to exceed eight hours in a day, and the children may not work night shifts. (BSCI 2009)

The following criterion (8) is made in regards to any and all forms of forced labor, including practices such as “lodging deposits or retention of identity documents from personnel upon commencing employment.” The company shall not force an employee to stay, nor shall an employee be forced to stay after a normal workday has ended. Moreover, the employee is free to terminate the working contract provided that they have given appropriate notice time to management. Environmental consideration (9) and safety should be taken into consideration. Programs for waste management, disposal and handling of chemicals or dangerous materials should meet or exceed the minimum legal requirements. Any operations harmful to the environment, such as emissions, should also meet or exceed the minimum legal requirements. (BSCI 2009)

The final requirement (10) which must be met states that the company must implement a management system which measures and ensures that all of the criteria of the BSCI Code of Conduct can be and are being met. It also goes further to state that anti-bribery and anti-corruption policies should be put into place. Continuous development should be conducted throughout the entire membership, and the company should be sure to communicate the Code of Conduct throughout the entire organization, as well as address any issues of non-compliance of any employees. (BSCI 2009)

Finally, the terms of implementation for the BSCI Code of Conduct outline measures which need to be taken in order to implement and monitor the activities

in compliance. These include a long list divided into groups: management responsibilities, employee awareness, record-keeping, complaints and corrective actions, suppliers and sub-contractors, and monitoring. (BSCI 2009)

Overall, the BSCI Code of Conduct comprehensively defines guidelines and a standard of which to comply, covering a wide range of issues to address regarding social responsibility. Not only does the Code of Conduct list issues to address, but it involves interaction between the company and the Code of Conduct in open communication, reporting and development in order to ensure the best standards are met within the company. It is no wonder that any company claiming to be a member is seen as a responsible, credible and reputable organization who takes on social responsibility as a priority in its operations.

4.3.4 Supplier Ethical Data Exchange

The Supplier Ethical Data Exchange (SEDEX) describes itself as a nonprofit organization “dedicated to driving improvements in responsible and ethical business practices in global supply chains.” (Associate Auditor Group 2012) This organization exists as a means for companies to ethically audit supply chains and select responsible suppliers.

The two main aims of SEDEX are:

1. to ease the burden on suppliers facing multiple audits, questionnaires and certifications
 2. to drive improvements in the ethical performance of global supply chains
- (Associate Auditor Group 2012)

Developed by the Associate Auditor Group (AAG), SEDEX exists as the “largest collaborative platform for sharing ethical supply chain data, “which houses a large membership exceeding 25 000 members across more than 150 different countries and extensively covering 23 different sectors. Their main concept as an organization is development and efficient ethical supply chain management, providing companies with the resources to ethically select responsible suppliers, as well as reduce internal and external risk, “protect company reputation and improve supply chain practices.” (Associate Auditor Group 2012)

Figure 6 illustrates the role of SEDEX in the information sharing regarding ethical supply chain practices.

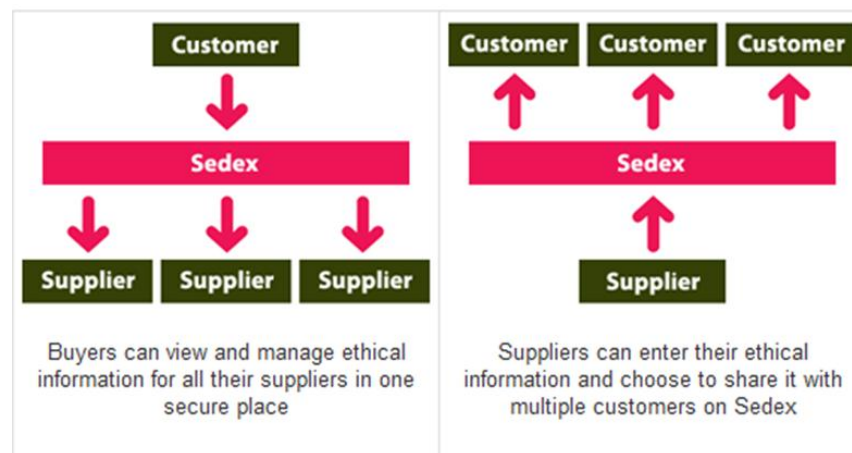


Figure 6 Position of SEDEX as a tool for responsible SPM

(Associate Auditor Group 2012)

As a purchaser, SEDEX is a tool which can be used for the research of business ethics and responsible supply chain practices, with gained access to an additional Risk Assessment Tool. (Associate Auditor Group 2012) This research is cost efficient as all necessary information resides in one single, comprehensive location and can lead to better, more ethical decisions on selecting suppliers and business partners. It also encourages suppliers to implement more responsible practices, as more ethical operations can give competitive advantage when being compared immediately against competitors.

As a supplier, SEDEX provides methodology and standards to audit internally, measure and report ethical practices and information in a cost efficient, online manner. The system is secure and the information is held confidential, enabling any input information to be controlled accurately. Through this database, SEDEX is able to aid companies in situations where it is necessary to execute multiple responsibility audits by allowing a single or all audits performed to be reviewed simultaneously by multiple potential purchasers. (Associate Auditor Group 2012)

A company can submit any kind of three audits: first party audit, second party audit and third party audit. A first party audit is executed internally by the commanding

organization itself, which can give the company a general idea of its operations. Areas of development and more accurate measurement can be highlighted by second and third party auditors. The second party auditors would be those business cooperatives who work directly with the organization, such as contractors or suppliers of the company. Third party audits are performed by an independent organization, certification body or registry; this particular type of audit is seen as the most credible and widely accepted. (Associate Auditor Group 2012)

In both cases, SEDEX is positioned in the middle of the information chain, connecting clients and suppliers. The core competency of SEDEX is an online database comprising of information shared and reported by members, focusing on four key components: labor standards, health and safety, environment and business ethics. Furthermore, the organization provides online resources for auditing methods, support materials in several languages, interactive events to facilitate and develop ethical practices between members and connections to join collaborative projects. (Associate Auditor Group 2012)

4.3.5 United Nations' Global Compact

Inspired by the highlighted aspects of UN Governance, the United Nations' Global Compact exists as the "world's largest voluntary corporate sustainability initiative." Developed by the UN and launched in the year 2000, the Global Compact Act is not a standardized regulation instrument, but rather "a voluntary initiative that relies on public accountability, transparency and disclosure to complement regulation and to provide a space for innovation and collective action." (UN Global Compact Office 2011)

The Ten Principles of the United Nations Global Compact covers four areas: Human rights, labor, environment and anti-corruption. These are as follows:

Human Rights

- Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights
- Principle 2. Make sure that they are not complicit in human rights abuses

Labor

- Principle 3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining
- Principle 4. The elimination of all forms of forced and compulsory labour
- Principle 5. The effective abolition of child labor
- Principle 6. The elimination of discrimination in respect of employment and occupation

Environment

- Principle 7. Business should support a precautionary approach to environmental changes
- Principle 8. Undertake initiatives to promote greater environmental responsibility
- Principle 9. Encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption

- Principle 10. Business should work against corruption in all its forms, including extortion and bribery

(UN Global Compact Office 2011)

The organization works to develop to main objectives: to mainstream the ten principles in business activities around the world; and to catalyze actions in support of broader UN goals. The UN also provides and promotes the benefits of participation in the Global Compact, motivating companies and organizations to become more responsible while gaining credibility. The Global Compact's policy framework is internationally recognized for "development, implementation and disclosure of environmental, social and governance policies and practices." (UN Global Compact Office 2011)

Furthermore, the Global Compact leads in the best and emerging practices to common issues and challenges. Participation grants connections to Global Compact networks around the world, access to UN knowledge and experience regarding sustainability, resources and tools. (UN Global Compact Office 2011)

4.4 Use and implementation of accepted guidelines and initiatives as tools

While these guidelines and initiatives are generally accepted, criticisms certainly come attached. It has been stated that “none of these models, whatever their merits, has so far succeeded in commanding general support. At present, they provide a collection of interesting and challenging ideas, many of which seem to have little prospect of widespread implementation.” This is namely in regards to the GRI, Balanced Scorecard and ValueReporting Framework developed by PwC. (Eccles and Krzus 2010, 80)

When reviewing all of the previously mentioned guidelines, initiatives and standards, it is clear to see that they exist to fill a gap where CSR regulations and laws are lacking. The names of these organizations repeatedly appear in professional business journals, articles and company news releases. It is very clear from observance that these structures have provided companies with a means of “actively building competitive advantage.” Like most business models and tools, it is not applicable in every situation. Developing countries and their exports may suffer when constrained to meet standards used by further developed countries. For organizations originating from those developing countries, long term benefits may be apparent and short term use of the standards can be costly, but they can prove to be beneficial “as a means of differentiating themselves” in a highly competitive market. (Zadek 2006)

Neef provides critique on using these standards as tools, stating that though they are a valuable means of establishing an ethical supply chain, they are by nature, “elastic and voluntary, and are not seen by advanced companies only as a first step in establishing a broader ethical supply chain framework.” While they do provide sensible and substantial ethical guidelines for performance, they are usually only a benefactor to reputation rather than “commitment to specific actions.” (Supply Chain Imperative: How to Ensure Ethical Behavior in Your Global Suppliers 2004, 119)

Pressure from stakeholders, as mentioned previously throughout the study, is seemingly perpetual motivation for companies in whatever actions. CSR and financial performance are two main concerns which see increases of importance for both stakeholders (and their companies) and consumers in the markets. (Shahin

and Zairi 2007) Relying on key performance indicators translated from the desires and expectations of the stakeholders, these frameworks are used to present the nonfinancial information.

Furthermore, these organizations also provide guidelines for companies who operate in several different countries or across several different economic zones, exploiting workforce, labor and child labor in developing countries. While a company may comply with regulations and national laws, appearing to be responsible and ethical, the lack of transparency in responsibility reporting can lead to a hidden unethical background or operations. (New and Westbrook 2004, 254)

Hirschland criticizes national administrative bodies, stating that the presence and actions of these CSR networks and organizational bodies govern recognition and reputation effect the ethical operations far more than the effects of a government providing enforcement upon national guidelines and regulations; the CSR initiatives “do much of the heavy lifting.” (Corporate Social Responsibility and the Shaping of Global Public 2006, 115) An example is the previously mentioned SA8000 and their “basic needs” wage.

Therefore, while these standards were created on the basis of global surveys, analyses and needs of the rising ethical reporting community, the standards have adapted to developed, recognized and reputable standards in order to fill the gaps which previously were lacking in national regulations or enforcement, thereof.

4.5 Systembolaget’s CSR practices in the alcohol industry

To refer back to Hopkins’ question, “Is a business’s only job to make profit? (Planetary Bargain: Corporate Social Responsibility Matters 2003)” the answer is no. Gao and Zhang present a common argument that a company is a “social institution whose responsibilities extend far beyond the wellbeing of its shareholders to giving security and a sustainable good life to its employees, customers, suppliers, local communities and the society beyond the current generation.” (Stakeholder engagement, social auditing and corporate sustainability 2006)

Consider Swedish alcohol monopoly, Systembolaget as an example and forerunner in the alcohol industry to set the industry standard in responsible practices. As mentioned previously, the premise of the business model has excluded profit from

motivation, meaning the company operates as a responsible alcohol retailer, with no intent to increase sales or profit. (Systembolaget, Responsibility Report 2010 2010, 1).

Beginning in 2010, Systembolaget had begun to release annual responsibility reports – an annex to their current CSR measures, in compliance to the GRI guidelines. Using a combination of different methods of auditing, including an internally developed auditing form, Systembolaget has been able to influence other Nordic alcohol monopolies to adopt more responsible practices. Not only does Systembolaget work to suppress the amount of negative impact of alcohol on Swedish society, they focus internally on employees and overall impact on the natural environment. (Systembolaget, Responsibility Report 2010 2010)

Figure 7 represents Systembolaget's three-way CSR mandate, which divides the responsibilities within the mandate into branching policies effective throughout the entire organization.



Figure 7 Systembolaget's three-way CSR mandate
(Systembolaget, Responsibility Report 2010 2010)

These three working areas are identified as their “alcohol policy mandate, commitment to the alcohol issue and their CSR work.” At the core of Systembolaget's

business operations, the mandate works to prevent and limit any harmful effects of alcohol on society. Moving outward, the Alcohol-free, Analysis and Research, and IQ Initiative illustrate Systembolaget's "extended involvement in alcohol issues." The outermost layer are cooperative in a full-circle cycle and relate to each other, which shows Systembolaget's work in CSR and sustainability, as well as codes of conducts aligned to the UN Global Compact Initiative guidelines. (Systembolaget, Responsibility Report 2010 2010)

With this mandate lying at the core of Systembolaget's operations, the company has extended their hand at developing CSR operations even more. Since 2008, Systembolaget has been working with their suppliers through ongoing close and open communication "with the aim of increasing their commitment and responsibility, and of identifying formats that ensure a sustainable drinks supplier chain. Systembolaget also worked with suppliers for a basic CSR training program, of which 45 suppliers attended and completed. (Systembolaget, Responsibility Report 2010 2010) (Systembolaget, Responsibility Report 2010 2010)

Future steps for Systembolaget involve becoming more environmentally friendly; from listing more organic and environmentally friendly products within each purchase plan to even the logistics and packaging of the products. (Systembolaget, Responsibility Report 2011 2011)

5 CASE COUNTRY AND COMPANY: FINLAND AND PRAMIA OY

5.1 Finnish alcohol consumption and alcohol-related harm

Nordic countries have been set apart as an area with high amounts of binge drinking. Finland is a country which has always been noted for its high alcohol abuse, leading to strictly enforced alcohol policy development and the presence of an alcohol retail monopoly (Kurzer 2001, 28)

Table 3 displays the number of alcohol related deaths and in Finland from 2003-2007. This information is taken from an annually published study by national research and development institutes of each participating country in the Nordic alcohol study: Finland, Denmark, Sweden, Norway, Greenland, Iceland and the Faroe Islands. (Jääskeläinen 2008)

Table 3 Number of deaths from alcohol-related illnesses in Finland, 2003-2007

	Alcohol psychosis and alcohol dependence	Cirrhosis of the liver	of wich alcoholic liver disease	Alcohol poisoning	Total	Number per 100,000 inhabitants aged 15 and over
ICD-10	F10	K70, K73-74	K70	X45		
ICD-9	(291, 303)	(571)	(571.0- 571.3)	(980)		
Finland						
2003	144	..	643	532	1,572	36.6
2004	140	..	831	614	1,864	43.1
2005	173	..	976	561	2,033	46.7
2006	180	..	978	587	2,032	46,1
2007

(Jääskeläinen 2008)

Jääskeläinen states that Finland has a much higher increase of alcohol-related deaths, particularly in that of cirrhosis in contrast to Norway, less than 210 deaths in total any given year, and Iceland, which had less than 20 deaths in total any given year. Finland sees the same correlation in both alcohol poisoning and alcohol-related deaths in total, exceeding both Norway and Iceland. This could be partly due to an increase in the number of retail outlets in Finland, (Nordic Studies on Alcohol and Drugs 2008) but most likely due to the fact that Finns enjoy a binge drinking culture. As Kurzer describes the “typical Finnish habit of periodic bouts of

heavy drinking,”... “they will drink themselves to death and cause much destruction to themselves and others.” (Kurzer 2001, 45)

5.2 Finnish alcohol policy and alcohol monopoly Alko

Prior to EU membership, Finland has had a history of alcohol prohibition which emerged in 1918. After slightly over two decades in 1932, the Finnish parliament passed the Alcohol Act, forming alcohol monopoly Alko, which at the time “controlled all the manufacturing, exporting, importing and distribution of alcohol.” Alko’s reach even extended to alcohol sold in restaurants, which were only permitted a license upon request. The original aim of the established alcohol monopoly was “to eliminate the profit motive and private interests” in the alcohol industry. (Kurzer 2001, 36-37)

On 1 January 1995, Finland became a member of the EU, thereby repealing monopolies on alcohol production, import, export and wholesale. Research facilities were also separated and moved into a separate entity. Former alcohol monopoly Alko was divided by powers into separate, independent administrative bodies, and Alko itself was left intact as the alcohol retail monopoly, with the responsibility of sales of all alcohol with an alcohol volume of 4,7 % per liter. All alcoholic beverages not exceeding the aforementioned percentage are allowed to be sold in grocery stores and similar retail outlets. (Österberg and Karsson 2002, 147-148)

During the same year, Finland moved to develop a national alcohol policy. It used the same premise as the European Alcohol Action Plan (EAAP) which had been drafted by WHO-Euro three years earlier. This remained standing as Finland’s alcohol policy until the Finnish Ministry of Social Affairs and Health requested that the Permanent Committee on Alcohol, Drugs and Temperance Issues update the policy in alignment to the update EAAP, five years later in the year 2000. The particular difference between the first drafted version and the updated version was the former focused on decrease of alcohol consumption, whereas the latter aimed to reduce alcohol-related harm. (Österberg and Karsson 2002, 148)

Later, the Permanent Committee on Alcohol, Drugs and Temperance Issues appointed ten representatives, who proposed ten principles of the act:

1. Increase the resources of and improve co-ordination within the system for prevention of alcohol related problems
2. Strengthen networking among those carrying out preventive policies at all levels of action
3. Start preparatory work to give a stronger mandate to local actors in the administration of alcohol sales (off- and on-premise)
4. Improve the access to and provision of health and social services (both general services and special services for problem drinkers, including supported housing and income maintenance)
5. Within the spectrum of anti-alcohol action, strengthen the position of special services for problem drinkers, compared to control measures and education
6. Create a system of physicians in charge of treatment of problem drinkers at the regional and local levels of health service provision
7. Create rules that would help administrations and local actors to keep alcohol-free the leisure and sports environments that are provided for children and adolescents
8. Strengthen the action to promote early detection of alcohol problems in health and social services, occupational health services for the school and university system
9. Strengthen the role of civil organizations in order to support local communities in intervening in and preventing alcohol problems
10. Change the drug prescription system so that control of the prescription of psychoactive drugs is tightened.

(Österberg and Karsson 2002, 149)

The program works in several different aspects so that prevention of alcohol related problems emphasized both at national and local networks. Finnish government found it slightly easier to implement, as additional costs were low and enforcement was enacted quickly over a three year period (2001-2003). (Österberg and Karsson 2002)

Furthermore, Finnish alcohol retail monopoly Alko is guided and supervised under the Ministry of Social Affairs and Health by law. All actions are in accordance to the Alcohol Act and the Degree on the Operation of the Alcohol Company, Alko's

task is to “carry on the retail trade of alcoholic beverages prescribed exclusively for it, while aiming to prevent the adverse effects of alcohol consumption.” In 2011, the company extends across Finland in 348 retail stores, employing over 2 300 employees. (Tikkanen 2011)

Alko’s operations today reflect Finland’s history of alcohol policy and regulations. Their aim and mission has been updated to be the “best retailer in Finland in responsibility in operations and customer service.” Compared to their strategy upon initial establishment, their current strategy, updated in 2011, includes elements more focused on CSR. (Tikkanen 2011)

Figure 8 shows the key elements of the revised strategy, as well as the updated mission and vision.

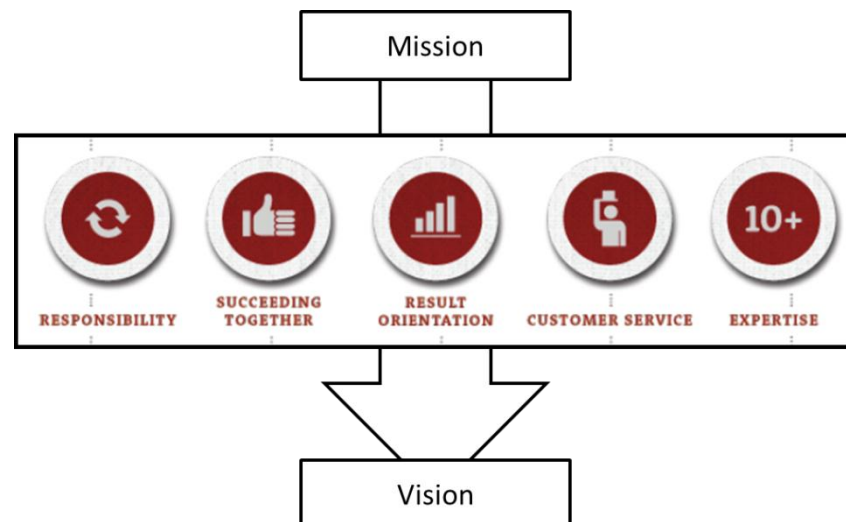


Figure 8 Structure of Alko's strategy

(Tikkanen 2011)

This structure is more transparent than the previous, highlighting the values of Alko: responsible operations, “development of customer service and further strengthening staff commitment expertise.” Alko has taken on an emphasis of comprehensive forms of responsibility: “where environmental responsibility, responsible purchasing and responsibility toward personnel are all essential elements.” Using their mission as the responsible retailer of “alcoholic beverages with

a balanced level of high-quality customer care and economic efficiency,” along with these strategic aspects, Alko strives to reach their vision. (Tikkanen 2011)

5.3 Systembolaget’s effect on Alko

Systembolaget has been able to succeed in their mandate “to help limit the harmful effects of alcohol.” Armed with a long history of responsible operations, Systembolaget has worked to combine all Nordic alcohol monopolies, including Finnish alcohol monopoly Alko, in working toward a common objective. (Systembolaget, Responsibility Report 2011 2011)

Under the Nordic CSR partnership, the Nordic alcohol monopolies: Systembolaget of Sweden, Alko in Finland, Vinmonopolet in Norway, Iceland and the Faeroes, aim to work under cooperation toward a sustainable drinks supplier chain. In 2009, the partnership drafted together a common Code of Conduct, “containing rules and guidelines that describe how the operations shall be conducted in an ethical and responsible way” which was based on the UN Global Compact Initiatives’ ten principles, mentioned in section 4.3.5. This Code of Conduct was to be completed in 2010, but was delayed. (Systembolaget, Responsibility Report 2010 2010)

Throughout ongoing communications, Systembolaget was able to clearly plan further steps in their CSR operations. Systembolaget had successfully formed an established partnership among the Nordic monopolies. Working with the fellow Nordic alcohol monopolies, Systembolaget pushed efforts in CSR training and cooperation in responsible purchasing. With the ongoing dialogues, the Nordic partnership was able to reach a conclusion for integration of the Code of Conduct. Finally, in 2011, the five Nordic alcohol retail monopolies cooperated and adopted a single, shared Code of Conduct. (Systembolaget, Responsibility Report 2011 2011)

As of 2011, the purchasing agreements of all monopolies would be implemented or stating changes regarding the Code of Conduct, as well as provided resources for self-assessment and incident management. The cooperative objective of this shared code of conduct is to “have established a systematic Nordic methodology for a sustainable drinks chain by 2013. (Systembolaget, Responsibility Report 2010 2010)

In addition to the Code of Conduct, a Nordic process was drawn up to develop and enable a follow-up system. Systembolaget describes the process as “the Nordic alcohol monopolies, the Nordic importers and the producers worldwide have a shared responsibility for completing a self-assessment form on compliance” with the Code every year. Furthermore, the organization must call in third party auditors to verify that “problems are genuinely being rectified.” Any misdemeanor or failure to comply should be addressed far in advance at an early stage. For the convenience of execution, “purchasers have highlighted threats and opportunities from a CSR perspective.” (Systembolaget, Responsibility Report 2010 2010)

5.4 Alko’s regulations, 2012

Alko releases an annual report, as well as a biannual purchasing plan. With changes in cooperation with the Nordic monopolies underway, Alko has implemented more focus on CSR throughout the entire organization, as previously mentioned in Figure 8 Structure of Alko's strategy. According to their Responsibility Report 2011, Alko is aligning economic, social and environmental responsibility with the expectations of their main stakeholders. (Tikkanen 2011)

In April 2011, both Alko and Systembolaget were granted membership to the European BSCI. During the same month, Alko directors approved the BSCI Ethical Principles and moved toward responsible purchasing. At the end of December 2011, Alko released a notice of an amendment to the biannually released purchase plan, adding new regulations for all suppliers in a press release: *PRODUCT REGISTRATION INTO RESPONSIBLE PROCUREMENT SYSTEM, BSCI declaration and information on the product’s supply chain* in order to comply with the BSCI Code of Conduct (Ethical Principles). The full release from Alko can be found in Appendix 1.

These ethical principles are “based on the UN’s Global Initiative, which promotes human rights, labor, the environment and anti-corruption” as seen in 4.3.5, as well as BSCI’s auditing model. It would “ensure that all products on sale are made under socially and ethically acceptable conditions.” (Tikkanen 2011) This would apply to all products sold on Alko’s shelves or offered in purchase plans beginning 1 January 2012, be it alcoholic beverages, nonalcoholic beverages, packaging or accessories. (Alko n.d.)

These regulations require that the supplying company disclose the following information: name, address, contact person of the production plant, number of personnel at the production plant. Alko goes on to specify that the production plant should be identified as the one which is located in the “product’s country of origin and where the final, marketable product is made,” and not where, for example, “a bottling plant is located in some other country.” (Alko Oy 2011)

Alko continues to illustrate an “example of a possible supply chain and what should be reported to Alko” which is depicted in Figure 9.

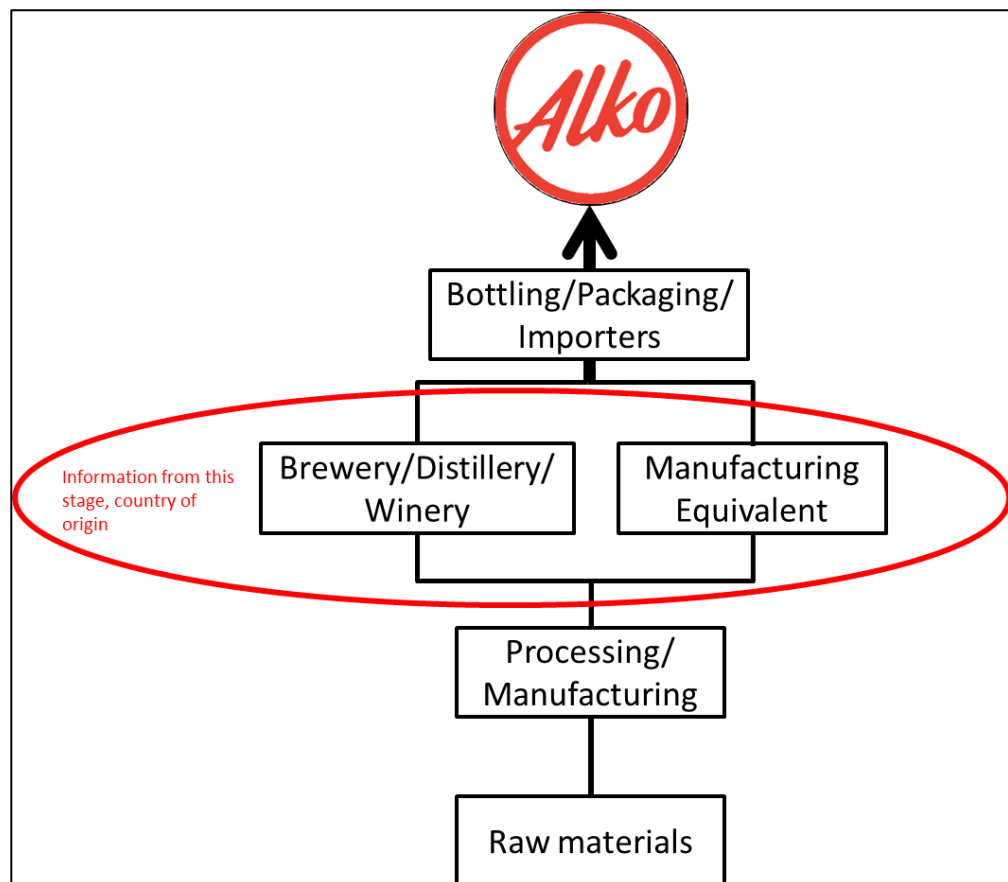


Figure 9 Alko's example supply chain structure
(Alko Oy 2011)

When examined closely, Alko is looking into countries of origin and location during the primary stages of manufacturing or their products. This will later help them, when suppliers have reported, in distinguishing national regulations against suppliers which comply with CSR and responsibility initiatives.

5.5 Pramia Oy, the responsible alcohol manufacturer

Pramia Oy was founded in 1990 by Marko Mäkinen under the name Sahti Mafia Oy. The company initially began as a small home brewery, and operated as an alternative means of income until Finland joined the EU in 1995. With the new membership to the EU, the entrepreneur met challenges with newly introduced taxes. (Kivinen and Mäkinen 2012)

When faced with costs exceeding his own capabilities, Mäkinen saw the opportunity to expand and move into the spirits industry. As monopolies on production and manufacturing had been repealed upon Finland's membership to the EU, Mäkinen requested a license from Alko's product control center to manufacture stronger alcoholic beverages. Thereafter, Sahti Mafia was granted Finland's first private license to manufacture alcohol. (Kivinen and Mäkinen 2012)

In 1997, Sahti Mafia changed the organization name to the undefined Pramia Oy. Pramia has concentrated heavily on implementing CSR into their core operations more during the most recent few years, prominently since the addition of two employees, namely an export manager who has been largely responsible for developing Pramia's international sustainable image. Since autumn 2009, Pramia has been reshaping their company image, during which Pramia has been moving away from a localized Finnish image to incorporate more CSR aspects from an international perspective (Kivinen and Mäkinen 2012)

Today, Pramia exists as one of the four major competitors in alcohol manufacturing in Finland. Currently operating from a manufacturing facility in Ilvesjoki, Finland, Pramia is the third biggest spirits and strong alcoholic beverage producer, as well as the largest privately owned. The company has incorporated sustainable practices since the birth of the company; however, several additional measures have been taken since internationalizing. (Kivinen and Mäkinen 2012)

Figure 10 represents Pramia's CSR mandate, which the company implements across in all of their operations and uses in their company image.

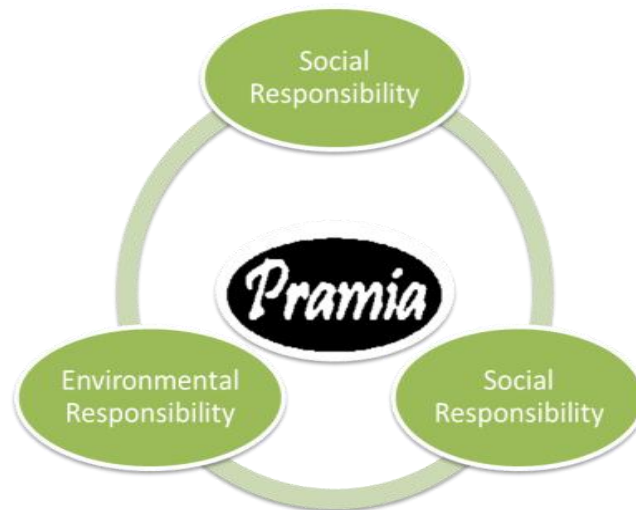


Figure 10 Pramia's CSR mandate
(Pramia Oy 2012)

Pramia ensures through annual internal auditing that all dimensions of their CSR mandate are fulfilled and progress is made for development. The company's social responsibilities are highlighted through their compliance with the United Nations' Global Compact Act. (Pramia Oy 2012)

Holding strong principles against labor abuse or mistreatment of any kind, Pramia avoids cooperation with any potential partners who do not implement such measures. The work environment, albeit classified as dangerous, is audited biannually to ensure that no harm comes to employees, along with a safety and health training with up-to-date emergency training certificates issues to each employee and a long-term company partnership with a local medical service. Though alcohol is argued to be harmful to the public's health, Pramia does its best to minimize any harmful impacts on society. Their products are sold in responsible retail outlets, such as Finnish alcohol monopoly Alko. The firm also works in partnership with the Nordic alcohol monopolies Alko, Systembolaget and Vinmonopolet, who "all also commit to the principles of CSR." (Pramia Oy 2012)

Pramia's local economic responsibilities are focused domestically, with the most recent action being The economic responsibilities are not only focused on the surrounding community, but Pramia annually donates 0,7 % of its gross domestic

turnover to international disaster relief funds and foundations. Furthermore, Pramia's investments are environmentally mindful, which provide more responsible and ethical investments and spending. (Pramia Oy 2012)

Environmental responsibility is, perhaps, where Pramia concentrates most of its efforts. Pramia has been able to measure, minimize and develop its carbon footprint using sustainable operations. From minimized waste and packaging to logistically friendly, recyclable PET-plastic bottles to investing in a wind turbine, Pramia became Finland's first carbon neutral alcohol manufacturing facility after 20 years of operation. (Kivinen and Mäkinen 2012)

To capitalize on its environmentally friendly image, Pramia launched an organic export product line. Pramia has had its carbon footprint measured by a third party, which highlighted these factors as the biggest contributors to their neutral carbon footprint. Pramia not only manufactures their own recyclable bottles using clean, pollution free energy, but they have also extended their ownership into a subsidiary: Pramia Plastic, which is Finland's only domestic plastic bottle recycling facility. (Pramia Oy 2012)

With CSR at the core of Pramia's operations, the next step is to ensure that all products which pass through the manufacturing facility are produced responsibly. Pramia's Code of Conduct complies with the BSCI standards, which align with Alko's Code of Conduct. Pramia does have an advantage, as their implemented internal CSR policies have long exceeded Alko's and the other Nordic monopolies' requirements.

6 RESEARCH METHODOLOGY

6.1 Premise of the research

The research methodology used in this study was divided into two main parts: theoretical and empirical. The method of research primarily used during the empirical stages of this study was social auditing, which mainly implements quantitative methods; however, further methods of research were used as the research process progressed. Social auditing was introduced in section 4.2; practical applications were used in determining the performance of a social auditing system and defining aspects in which to improve.

The theoretical portion of this study correlates and developed along the same timeline as the empirical portion. As mentioned in 1.3 Key concepts, the focus of the theoretical portion was on the topics of supply chain management and strategy, corporate social responsibility, alcohol policy and theoretical frameworks for social auditing. These topics were researched due to levels of relevance to the study topic and case situation.

Because this research was done in compliance to CSR regulations and an auditing task for Pramia, all of the suppliers were audited, with no sampling methods done.

6.2 Development of an auditing system: The research process

In order to find a solution to the previous problem: “Are Pramia’s products responsibly produced?” the answer resolved only after a long and complicated process. Because Pramia had never dealt with this type of auditing on such a wide scale, the researcher had to begin from scratch. This had to first be answered by creating a list of suppliers for all purchases Pramia makes, going directly toward their final products. The research process began by listing all products individually – making a list of all raw materials used in the full range of final products and the production of them. Once the list of raw materials had been produced, the next step was to obtain supplier contact information from each employee who was in charge of making those purchases.

Surprisingly, no employee at Pramia had ever comprised a list of suppliers. Therefore, this was the first major step. Once all of the supplier contact information had been obtained, a general notification was written up in both English and Finnish to notify Pramia's suppliers of the upcoming auditing. The researcher decided that it was best to hold a phone interview, but send the questions attached to the notification email two weeks in advance. This phone auditing was measured to be about 10 minutes long, and was also decided upon because it would be a more intimate contact for Pramia's suppliers.

In total, there were 37 suppliers to be audited. Some respondents filled the auditing form, others notified of the best time to call, and the third category of suppliers did not respond at all.

6.3 Collection of the data

The interactions inside of Pramia between the researcher and employees were face-to-face contact through every day interactions. The researcher used a pre-released structured auditing form, which had been published in English by Swedish alcohol monopoly Sytembolaget. This was modified to fit the needs of Pramia and became a more manufacture-focused auditing form. An identical form was sent to each supplier to be audited. The full auditing form can be found in Appendix 2.

At later stages of the auditing process, the form was edited to include open comments, and thus, qualitative research. This was done because Pramia needed further information or an explanation from responses in the quantitative research, when the auditing form was not enough.

6.4 Division of suppliers respective to language of communication

For the benefit of those doing the study, the suppliers were broken up into two groups before being contacted: Finnish/domestic suppliers and foreign suppliers. The auditing form used was drawn up by Systembolaget. This was adopted for Pramia's use and also translated from English to Finnish.

For Pramia, it was logical to contact suppliers in the respective language used in business communications: English and Finnish. The second reason was the possible emergence of a language barrier. Not all suppliers have internationalized or

they have simply stayed local in their operations, making it more plausible to contact them in Finnish.

The purchasing/product development manager conducted the audit proceedings with the Finnish suppliers, while international auditing contacts were established by an individual with native English skills. Pramia felt that with the native English speaker, international contacts would understand her better, and she would also be able to conduct the telephone auditing more smoothly. Furthermore, Pramia has had long lasting relationships with their domestic suppliers, thus the division of contacts made it more formal for the Finnish suppliers.

6.5 Validity and reliability of the research

6.5.1 Assurance of theoretical literature

While collecting theoretical literature, it was the goal of the researcher to form a strong theoretical background for these topics; therefore multiple sources were used in order to validate the research. To further critically analyze the theoretical portion, the researcher applied a checklist for evaluating relevance of the literature.

- How recent is the item?
- Is the item likely to be superseded?
- Is the context sufficiently different to make it marginal to your research question(s) and objectives?
- Have you seen references to this item (or its author) in other items that were useful?
- Does the item support or contradict your arguments? For either, it will probably be worth reading!
- Does the item appear to be biased? Even if it is it may still be relevant to your critical review!
- What are the methodological omissions within the work? Even if there are many, it still may be of relevance!
- Is the precision sufficient? Even if it is imprecise it may be the only item you can find and so still of relevance.

(Saunders, Lewis and Thornhill 2003, 71)

The researcher deems the research valid and reliable when using this checklist to measure. The majority of the research has been published in the last decade, where older sources were used mainly for classic concepts that have not been superseded. Furthermore, throughout the majority of the sources, arguments and counterarguments were presented; thus giving a fuller perspective on each subject.

Many of the sources were published in peer-reviewed journals, and therefore cannot contain a significant amount of biased. Though there may be some bias, it is countered by the use of a wide range of various sources. Furthermore, the methodological lack from one source may be identified within other sources, and this is also put into place with the introduction of practical methods which are applied in real business operations today.

6.5.2 Assurance of empirical data validity

There are, without doubts, challenges in realizing validity when analyzing sustainability performance and reporting. The primary challenge in “auditing social and environmental performance is that there is little standardization of social and environmental management systems, performance measures and reporting structures.” Sustainability performance and reporting guides and initiatives exist, discussed earlier in section 4.3, which have become internationally accepted as standards and also facilitate growth for increase of standardized reporting. (Epstein 2010, 236)

Furthermore, the drivers of corporate social performance rely on the actions, financial performance and “identification of performance metrics characterizing each component of the framework.” The responsibility and performance measurements are validated through use of “specific and appropriate measures that reflect sustainability...and are essential to monitor the key performance.” (Epstein 2010, 164-166)

Hopkins states that legitimacy is the first concern when dealing the social auditing and measuring of responsibility. In Table 4, he provides measures to ensure legitimacy in disclosure of information:

Table 4 Suggested indicator and measure for legitimacy

Element	Indicator	Measure
Legitimacy (Hopkins 2003, 166)	Code of ethics	Published?
	Code of ethics	Distributed to employees?
	Code of ethics	Third-party monitoring?

He explains that, aside from their actions, a company's principle indicator of legitimacy in social auditing is a Code of Ethics which has been published, distributed and communicated clearly to employees and the auditing of a third party regarding the implementation into the company's operations. (Hopkins 2003, 165) This is not completely possible, nor suitable, for companies on a smaller scale, as communications are more open and feasible.

According the AA1000 Assurance Standard, reports are evaluated against three validity/assurance principles: materiality, completeness and responsiveness. In order to verify the report, the information presented needs to "provide an account covering all areas of performance" needed in order to sufficiently judge the organization's responsibility performance. Furthermore, the organization needs to report completely and accurately in order for the stakeholders to assess the responsibility performance. Lastly, the report must respond "coherently and consistently" to the interests of the stakeholders. (Gao and Zhang 2006)

Other verification features used in the validation of this research involve the procurement of documentation regarding quality, assurance, compliance and certification. Several of Pramia's supplying companies are able to present these documents and are also members of international CSR organizations which have been previously mentioned. Several of the Pramia's suppliers comply with international standards such as ISO standards, BSCI, Global Compact and are members of SEDEX.

Further verification can be observed through validation of different audits from each supplier. As mentioned by within the guidelines of SEDEX, three audits: first-party, second-party and third-party audits, are accountable. With several of Pramia's suppliers being members of responsible supply chain auditing organiza-

tions and working in compliance with responsibility initiatives, audit reports are accessible, and therefore further validate this method of research.

Finally, responsibility and CSR-related initiatives and standards often require legal compliance and provide a means to communicate it clearly for prospective and current members. Therefore, it is legally expected that the supplying companies are operating according to regulations.

7 EVALUATION OF SOCIAL AUDITING IN PRACTICAL APPLICATION

7.1 Pramia's key indicators

Through analysis of the auditing form sent out, Pramia decided on nine specific criteria that need to be fulfilled for a supplier to continue the business relationship.

The range of the criteria in the entire social auditing process covers basic information as well as all three aspects of CSR: social, economic and environmental. This ensured that measurements from all aspects of responsibility could be measured throughout the company. However, the criterion which Pramia chose as their principle indicators only fit into social and environmental aspects.

The criterion, as written in the social auditing form, was disclosure of or appropriate answers to the following questions or requests:

1. Willingness to disclose company information (e.g. registered company name, address, Pramia's contact person, countries which the company operates in, number of personnel, products supplied to Pramia)
2. Compliance to any CSR policy, Code of Conduct or other policies related to CSR matters (e.g. environmental, gender, equality, ethical or labor)
3. Does your company have control of any knowledge of the circumstances under which your products and ingredients are produced (raw material to finished product)?
4. Do you have workers below the age of 15 years or less than the legal age of compulsory schooling? If so, do the tasks include...
5. Are there structures and systems in place to handle workplace accidents in your company and in your supply chain?
6. Is your company aware of any actual case of potential risks of discrimination on the basis of gender, religion, race, political opinion or social origin or any other reason?
7. Can you provide accurate and complete reports for environmental permits and violations?
8. Are there systems in place to manage chemicals?

9. Does your company have a waste management programme?

Source: See Appendix 2 Pramia's social auditing form

In short, Pramia selected indicators which directly relate to their own values; as in this auditing, they are the stakeholders. There were still information outside of the criteria that was analyzed; the companies were questioned about these if these answers were inappropriate.

When simplified and created into CSR topics, the indicators were as following:

1. Willingness to disclose company information
2. A presence of a Code of Conduct
3. Knowledge of ethical production (possibly throughout the supply chain)
4. Child labor
5. Workplace accident inquiry
6. Discrimination
7. Environmental permits/reports/violations
8. Hazardous waste/chemical management system
9. General waste management system

In order to apply the TBL methodology, the principles have been translated into their respective CSR dimension in Table 5.

Table 5 Pramia's indicators applied to CSR dimensions

Dimension of responsibility	Indicator
Social	Willingness to disclose company information
	Code of conduct
	Knowledge of ethical production
	Child labor
	Workplace accident inquiry
	Discrimination
Economic	-
Environmental	Environmental permits/reports/violations
	Hazardous waste/chemical management system
	General waste management system

When reviewing Table 5, it is clear to see that Pramia's main issue is that there is no indicator in the economic dimension. This can pose a problem; and if Pramia expects to see full social auditing, the company should develop one or more key indicators regarding economic responsibility.

7.2 Performance of the current auditing system

The current auditing system was created by the researcher to investigate any problems which may arise when developing a responsibility auditing system. This was a second-party auditing system; Pramia was auditing their suppliers in regards to their CSR, Code of Conduct and ethical operations.

Prior to the study, the case company Pramia presented itself and the initial question. Are Pramia's products ethically manufactured? After strong analysis of the theoretical research and careful observation of the case company and situation, the research questions have emerged. These questions are relevant to the objective of the study and aid in identifying the appropriate methods to be applied in order to achieve the goals.

This was in response to Alko's regulations, 2012 regarding the BSCI responsible purchasing. Case company Pramia was not aware that an entire auditing system would need to be developed. Since then, the question has become simply a motive to the begin study but led to the development to the following questions.

- | | |
|------------|--|
| Q1 | How does one develop a system for determining whether or not Pramia's products are ethically manufactured? |
| Support Q1 | What kind of methods should be used? What standards should be used? |
| Support Q2 | What should be the premise of criteria for achievement/acceptance? |

The researcher relied upon an auditing method previously developed by Systembolaget, which complied with BSCI Code of Conduct Standards. Upon the auditing of all suppliers thus far, Pramia is realizing that their suppliers are not all as responsible as previously thought. Criteria fulfillment was not met by all suppliers, and were further contacted, bringing up unexpected factors, later mentioned in

was not met by all suppliers, and were further contacted, bringing up unexpected factors, later mentioned in section 7.3.

For those suppliers who fulfilled the criterion Pramia deemed necessary, a follow-up report will be sent out later during the year after all suppliers have been audited. This report informs the supplier of Pramia's satisfaction and willingness to continue the business relationship.

7.3 Factors to consider

As previously mentioned, there were 37 suppliers in total. This included suppliers of raw materials, marketing products, materials related to in-house research and development, and all other purchases or services which directly relate to the manufacturing of the product.

Pramia should consider is that not all of their suppliers are able to fit their desired criterion. The suppliers operate in several different sectors and supply different materials; therefore different indicators applied to different sectors, as companies in industries such as advertising or raw food materials do not handle hazardous or chemical waste, resulting in failure to meet Pramia's criterion.

For those suppliers who failed to fulfill the criterion, Pramia had contacted those suppliers inquiring the reasoning for those answers to those questions. However, not all of the suppliers are necessarily to blame when considering Pramia's key indicators.

A factor that may easily be overlooked, Pramia should consider Finland's bilingualism. Their business communications, as of the moment, remain in Finnish and English, with only Swedish being the language chosen when communicating with Systembolaget. However, Finland has two official languages which make the country bilingual: Finnish and Swedish.

The Swedish language, as a mother tongue, consists of 6 % of the Finnish people. (Österberg and Karsson 2002, 140) When considering their country of operation, it would necessary to account for the Swedish speaking population. This is a very feasible option, as Pramia employs fluent speakers in the Swedish language, and all employees have had at least some Swedish education in primary school.

Furthermore, during the follow-up and reporting process to suppliers who fulfilled the criterion, Pramia received feedback from those suppliers about the company's own responsible and ethical operations. In this regard, Pramia should consider the means of proving their own responsible actions and ethical operations.

8 CONCLUSION

8.1 Summary of theoretical literature

In order to create and maintain a supply chain strategy, purchases within the company should work more cooperatively with each other. As products flow through an organization, upstream from the raw material suppliers and downstream to product-end-consumers, it is important to establish a supply chain strategy which best suits the organization's own positioning in the supply chain. It is essential for any organization, which desires more efficient processes as a whole, to implement some form of supply chain strategy.

Furthermore, a company in a supply chain should further extend their strategy to cooperation throughout the entire supply chain, upstream and downstream. With proper initiatives applied, an entire supply chain, as a whole, can be more cost-efficient and build upon sustainable practices when there are several participants willing to invest.

Supply chain management, inside of an organization and extending throughout the entire supply chain, is becoming increasingly more important for a company, as globalization increases the reach of competition and also offers its hand for competitive advantage. With increasingly more international markets, it is cost-efficient and rapid supply chain management that can give competitive advantage in both flow of goods and information. Furthermore, consumers and entire markets are becoming more educated in sustainable products and practices; the demand for more ethical products is, therefore, advancing.

With this being said, corporate social responsibility (CSR) is a concept which has been, and still is, gaining international momentum. Businesses are now being recognized not only on their market performance, but performance in the areas of social, economic and environmental responsibility. Businesses, today, are now expected to give back to stakeholders in order to maintain a reputable status. While also being responsible, companies should operate with sustainability in mind.

To emphasize the meaning of sustainability, a company should operate with only the means to “meet the needs of the present without compromising the ability of the future generation to meet their needs.” (Carter and Rogers 2008)

With CSR becoming more of a prominent aspect in today’s business, it is also becoming more closely aligned to the reputation of the organization. While poor decisions and actions can damage a company’s reputation, strong CSR practices and ethical operations can elevate the firm’s position, giving it competitive advantage among competitors.

In the alcohol industry, the word “responsible” does not come to mind. While high levels of alcohol consumption and alcohol abuse are prevalent in the world, alcohol manufacturers and retailers are still operating. In the case of alcohol monopolies, the state has taken control and responsibility of the ill effects of the public’s alcohol abuse. This has been the favored model, particularly in the Nordic countries. With a successful model, the presence of the alcohol monopolies has brought more controlled consumption and harm in an otherwise region with high alcohol-related illnesses and deaths.

Perhaps the most successful is the first established alcohol retail monopoly Systembolaget from Sweden. Systembolaget, interestingly, operates without motive of profit, but with the motive to minimize negative impacts on society. Systembolaget extends their responsible practices through use of responsibility reporting and social auditing.

There are several reasons to practice social auditing and measuring of ethical performance. Companies are facing legal requirements and national regulations. Customers are becoming more mindful of ethical practices and sustainable products, as are the rest of a company’s stakeholders. While it provides strong reputation and competitive advantage, it also safeguards the company from internal risk and provides motivation for more sustainable practices. In an international environment, it also safeguards risk when outsourcing – particularly when dealing with foreign suppliers.

To measure completely the three basic dimensions of CSR: environmental, social and economic, in alignment with sustainability is based on the triple-bottom line

(TBL) concept. To put it more clearly, its creator John Elkington describes it as “a framework by which corporations can attempt to measure their performance against certain parameters based not just on economic efficiency, but on social and environmental criteria.” (Cannibals with Forks 1999) When practically implemented, it relies on open communication between the corporation and the stakeholders: customers, potential and current investors as well as any contributors to the company, living and nonliving. The TBL concept insists that, while a company may sacrifice short-sighted profit and resources, sustainable practices offers long-term benefits and competitive advantage.

When put into practice, TBL translates into social auditing, a practice which observes and reports a company’s operations and performance through external, secondary or internal investigations. It is emphasized that social auditing and reporting depends primarily on open and continuous stakeholder-company communications, while being a strategic asset through means of positioning and development.

Furthermore, reliance on stakeholders is highlighted due to the importance of their needs and expectations. Their values translate to the values on social and environmental aspects which should be measures, and responded to appropriately through follow-up and development. The purpose of social auditing is to present, clearly and comprehensively, the organization’s responsibility and ethical performance.

For guidelines and standards on social auditing in practical application, companies use a series of initiatives and international standards. The organizations which provide social auditing guidance or services are seen as tools which a company can use as a more cost-efficient process. The most internationally accepted, reputable and commonly used are discussed, namely the following:

- Social Accountability 8000 (SA8000)
- Global Reporting Initiative (GRI)
- Business Social Compliance Initiative (BSCI)
- Supplier Ethical Data Exchange (SEDEX)
- United Nations’ Global Compact

SA8000, being the most prominent and widely implemented, focuses on the social responsibility dimension, providing standards in based on the International Labour Organization's (ILO) premises of operation. The GRI standardizes reporting standards and provides guidelines for participating companies. BSCI resembles SA8000 in its standards; however, the requirements seem less stringent and apply to the company as a whole rather than individual manufacturing facilities and sites. SEDEX is an organization specialized in ethical supply chain auditing and practices, providing international support and resources for companies to share and exchange information regarding their ethical practices. Finally, the United Nations' Global Compact of the "world's largest voluntary corporate sustainability initiatives," operates highlighting, and inspired by the ten main principles from the UN Governance. (UN Global Compact Office 2011)

While national laws safeguard the most basic needs of employees, the environment and the community, these international guidelines and initiatives are used by several organizations to further better the sustainability of their operations and practices. An organization which combines supply chain strategy, CSR practices and social auditing within the alcohol industry is Swedish alcohol monopoly Systembolaget. The CSR work of Systembolaget is unparalleled in the alcohol industry; therefore, the organization has successfully become a model for inspiration when implementing ethical practices into a company's operations.

8.2 Summary of case situation and empirical data

The purpose of the empirical data collection was to obtain relevant knowledge in practical implications of social auditing in order to develop a management system for Pramia Oy.

Pramia Oy is an alcohol manufacturer based and operating in Finland. With a long history of fighting high levels of public alcohol abuse, the Finnish state was faced with two main events which shaped today's Finnish alcohol policy: Finland became a member of the European Union (EU) in 1995 and Finnish alcohol monopoly (production, import, export, wholesale, retail) was divided into separate entities, with alcohol retail monopoly Alko remaining.

Since then, Finnish alcohol policy has shaped Alko's actions, as Alko is guided and supervised under the Ministry of Social Affairs and Health under law. Finnish alcohol policy dictates that the state should implement measures to increase prevention of alcohol-related problems, both at national and local levels. Furthermore, the alcohol policy does not focus so much on the decrease of alcohol consumption as much as it is on the lessening of alcohol-related harm. Alko is aimed at being a responsible retailer of alcohol, both in their operations and in customer service, with upcoming development in other areas of CSR.

Their most recent actions and initiatives have been primarily due to Systembolaget's influence. With a strong mandate at the center of their business model, Systembolaget has created a CSR model, shared Code of Conduct and influence within the Nordic monopoly-cooperative in order to work toward a common objective. Systembolaget has further influenced the other alcohol monopolies: Alko in Finland, Vinmonopolet in Norway, Iceland and the Faeroes, to further extend the CSR movement into their purchasing operations. After becoming members of the BSCI, the goal is now to "have established a systematic Nordic methodology for a sustainable drinks chain by 2013." This is complete with an implementation period, action plan and further follow-up system for during and after operations. (Systembolaget, Responsibility Report 2010 2010)

In 2012, Alko published a press release stating that, beginning on 1 January 2012, all products offered or sold on Alko's shelves must be produced "under socially and acceptable conditions." Alko's first step in this entire ethical purchasing process is gathering general information on the company, country of operation and country of origin of the product, as well as the country where the final, marketable product is made. (Alko Oy 2011)

This all relates back to case company, Pramia, as they are preparing their social auditing system in compliance to Alko's regulations. Alcohol manufacturer Pramia is based in Finland, operating with high CSR standards within the company's operations – so strong, that they already exceed those standards which Alko has in development for their suppliers. Pramia exercises CSR practices in all dimensions of CSR, and ensures that these practices align directly within and along their man-

date. Pramia has also incorporated their CSR practices, namely their environmental investments and friendliness, into their branding and imaging.

Pramia's need for the development of a social auditing management system included several aspects which were required to be researched beforehand; the research methodology used collective research of key aspects and practical implementation in social auditing. A total of 37 suppliers were audited; where after further aspects of consideration emerged. The suppliers needed to be divided and contacted in regards to Pramia's language of communication with the contact, either in Finnish or in English.

Pramia developed nine primary principles which it felt, was important to the overall firm and any supplier wishing to continue a business relationship. Using Pramia's key indicators, there were some suppliers who failed to meet the full criterion. This was, however, distinguishable through the fact that suppliers were from different sectors, thus not all of the criteria was relevant to each supplier.

This resulted in a revised auditing plan, using sector-specific social auditing and indicators which fill the economic gap. The methods which are applied should derive from Pramia's compliance to the BSCI, as the same principles and Code of Conduct are followed by their primary customer, alcohol monopoly Alko. Furthermore, Pramia should implement a practice regarding their supplier selection process. This is made more feasible and cost-efficient through the organization SEDEX, an organization of which several of Pramia's suppliers are already members.

8.3 Correlation of theoretical and empirical data

After analysis of both theoretical literature and empirical data which has been collected, the researcher has been able to identify correlation between the two which are applicable to this particular case situation.

Upon reflection of the key concepts and applying them to the case situation, it can be observed that theoretical CSR dimensions and supply chains strategies and social auditing models are applied and used in real operating CSR competitive environments. This can be observed through the mandates and operations of or-

ganizations discussed in the study: Systembolaget, the affected Nordic alcohol retail monopolies and case company Pramia.

With Pramia's successful CSR operations and commitment to sustainability, the reputation of the organization has increased and the company has received international attention due to their practices. The company has also incorporated their CSR practices into their company mandate, Code of Conduct and branding and image, which correlates with the increased reputation. When combining supply chain management, CSR operations and policies with social auditing, the organizations which implement practical social auditing and reporting guidelines and services provide real and practical solutions to Pramia's case situation.

Furthermore, much of the literature is brought to life through real practices and practical models presented in this study. Strategies for building supply chain strategy and management within a company are influenced by real world factors; these are the same factors which motivate the plan of action for Pramia. As the company is globalizing, their supply chain management needs to develop at the same rate along with the social auditing of the supply chain.

Pramia's social auditing needs are feasible through social auditing models and guidelines, while the development also follows theoretical models. The prime example is merging the TBL concept and Pramia's principle indicators in order to clearly observe what needs to be developed

While Alko, along with the rest of the Nordic cooperative, is strengthening their CSR operations up and down their supply chain, it is logical to assume that Systembolaget's strategy for responsible and ethical purchasing will only follow through to Alko. Alcohol monopoly literature correlates with real operating Nordic alcohol monopolies, as alcohol abuse and consumption is lessened due to the presence of the monopolies. The direction for alcohol monopolies seems to be toward sustainability. As their presence, already, decreases alcohol-related harm, the organizations are now working toward benefiting the community and environment in other ways than just existing.

8.4 Revised auditing system

8.4.1 Methods and standards to apply

Pramia's largest market is Finland with the largest customer being alcohol monopoly Alko. Observing the news, press releases and upcoming changes in Alko's purchasing operations, it would be logical for Pramia to implement standards which complement theirs.

This is feasible given three visible factors from Pramia's current operations. The company already complies to the standards of the BSCI, therefore the Code of Conduct has been implemented into their operations prior to this study. Furthermore, Pramia's CSR standards already exceed those standards of Alko. This is possible to make visible through internal auditing reports and responsibility reports. It is also suggested that Pramia would implement a third-party auditing in regards to their responsible practices. This would increase their credibility and provide motivation for their own suppliers to do the same.

With numerous resources available in order to do so, becoming a member of an ethical auditing organization would make the process of selecting suppliers and reviewing their responsibilities reports more cost-efficient. Particularly regarding both BSCI and SEDEX, a majority of Pramia's suppliers are members of these organizations.

Furthermore, membership to either of these organizations would provide access to a comprehensive database, giving previous auditing information on current and potential suppliers. This meets the current needs of Pramia and future needs, should Pramia's situation evolve into a more CSR-demanding environment.

8.4.2 Criteria for fulfillment

There were several suppliers, both foreign and domestic with a clear lack of regard for CSR practices or responsible operations. This was due to several different reasons – the primary one being that the suppliers ranged across too many various business sectors.

Table 6 Indicators relevant to Pramia's suppliers

		Dimension of responsibility and indicators											
		Social						Economic			Environmental		
		Willingness to disclose company information	Code of conduct	Knowledge of ethical production	Child labor	Workplace accident inquiry	Discrimination				Environmental permits/reports/violations	Hazardous waste/chemical management system	General Waste management system
Business sector	Food/beverage manufacturing	x	x	x	x	x	x				x	x	x
	Raw food materials	x	x	x	x	x	x				x	o	x
	Advertising	x	x		x	x	x				o	o	x
	Production/manufacturing	x	x	x	x	x	x				x	x	x
	Service	x	x		x	x	x				o	o	x
	Machinery	x	x	x	x	x	x				x	x	x

In Table 6, it can be examined not all of Pramia's criterion can apply to each of their suppliers' business sectors. While the number of Pramia's suppliers stays low, it is easier to manage sector specific concerns individually and aids in the up-keep of a close business relationship. These issues should be addressed through open and continuous communication.

In order to reach complete wholeness in their auditing, Pramia should consider further economic responsibilities which the organization considers to be important. This is not completely necessary; however, it is recommended to determine key indicators before the Pramia's next internal auditing session.

8.5 Plan for implementation and actions to be taken

While Pramia seems to have an already successful internal auditing system, there are several actions which need to be implemented and issues which need to be addressed, which are necessary social auditing measures for their suppliers and also for the growth and development of the company.

Previously mentioned in 7.3, Pramia should consider the bilingualism of Finland. This would fill a gap and complete their potential auditing system in development. This also prepares Pramia for any potential suppliers, Finnish or Swedish, wherein the language of communication would be Swedish. Also, previously mentioned in 7.3, Pramia should also make plans to extend their ethical auditing into external resources.

Provided that their needs for their biggest market align to Alko's standards, Pramia should consider which organization(s) most of their suppliers are a part of. SEDEX and BSCI, namely, are the most recommended. The membership and organization should affect Pramia's decision and motivate them to join the database which houses the most suppliers and potential suppliers for their business strategy and direction. This will help later in the internationalization process when seeking out and selecting their potential suppliers.

Pramia's current internal auditing system is very thorough, covering a multitude of issues, as well as carrying out a company-wide meeting biannually to present and discuss topics within the company. This meeting is the final, after a series of audits, which presents all issues in all departments of the firm, as well as all actions, progress which have been made and promotes further discussion for development plans, as well as actions for the following six months of operation.

With regard to their current internal auditing system, it should be seamless to further integrate another audit to their agenda. According to Pramia's internal auditing agenda, the next auditing session should be before the end of the year. This would be the best time to implement their social auditing management system, and discuss further indicators for future suppliers.

Their pre-established CSR policies and current internal standard stay aligned with the company through the internationalization process. In the event of outsourcing or extending their network of foreign suppliers, Pramia should implement the practice of first identifying ethical production and practices before establishing a business relationship. Furthermore, Pramia should consider the reputation of the suppliers beforehand. Credibility should be made part of the supplier-selection process also.

Additionally, the auditing process should be continuously developed – as Pramia is internationalizing and their external factors are changing, any involved auditing system should develop at the same rate. When expanding a network or reaching suppliers of different sectors, the auditing system should also evolve to involve those companies also, becoming sector specific. As mentioned previously, during Pramia's internationalization process, their suppliers, supplier selection and supply chain requires management. All of these factors need to develop at the same rate and in alignment along with the social auditing of the supply chain. In order to realize this, Pramia should make use of the resources and tools for implementation presented in this study.

Finally, Pramia boasts a high standard for CSR standards in its own operations and also provides high demands for its supplier; the company, however, does not produce any sort of responsibility report of its own. Pramia should consider, in response to its stakeholders and business partners, the release of responsibility report in regards to their company operations and CSR practices in order to provide transparency and full-perspective to their stakeholders.

8.6 Future research opportunities

This study provides future research opportunities for Pramia, as some issues have yet to be addressed. While the social auditing system has been developed along with plans to be implemented, there are issues are still present which need to be addressed.

Since Pramia has presented its key indicators for performance, and it wishes that supplying companies would meet fulfill this, there are no direct steps or process presented to Pramia indicating what needs to be done precisely in regards to those supplying companies who fail to reach criteria. This must be considered through a sufficient amount of research which will provide Pramia exact measures to be taken, by researching further key aspects related to Pramia's case situation and the situation of their suppliers.

Furthermore, Pramia wishes for direct steps to take with those unwilling to participate in the social auditing or ignore efforts to establish open communication regarding these concerns. This is an important aspect which must be looked into, as

ongoing communications are critical in order to maintain a business relationship, namely that between a supplier and the manufacturer.

Pramia may face challenges in this, in that it may be difficult if suppliers are not willing to communicate. This could be costly in company time, as it may necessitate the actions of seeking out suppliers and ending a previous long-term business relationship. Furthermore, Pramia could face consequences with Alko and other regulations the company faces in ethical purchasing if actions are not taken in an appropriate amount of time before hand.

These two issues open further research opportunities by providing new research questions which Pramia should develop. This provides motivation to act swiftly and comprehensively, in order to meet expectations of Pramia's customers. Furthermore, it provides strong reasoning to grasp these research opportunities in the immediate future and draw up plans for implementation.

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Appendix 1 Alko's regulations, 2012

28 December 2012

1/1

**PRODUCT REGISTRATION INTO RESPONSIBLE PROCUREMENT SYSTEM
BSCI declaration and information on the product's supply chain**

The seller/importer of each product is responsible for the commitment of the whole supply chain to the BSCI Code of Conduct (Ethical Principles) and for the product registration to Alko.

New products (offers as of 1 January 2012)

Commitment to the Ethical Principles (= Declaration) is made by signing the offer. In addition, the new offer forms include a section, where the seller must inform the production plant (brewery, distillery, winery) in the product's country of origin. The offer (and possible Annex 1) serves as a sufficient BSCI declaration document. New offer forms can be found on Alko's website at www.alko.fi > For suppliers > Blank-forms, and **they must be used from January 2012 searches onwards**. The terms pages (Annexes 2 and 3) must not to be returned with the offer.

In the Alko partner network the new offer template will open on 2 January 2012.

Products in Alko's selections

Commitment to the Ethical Principles requires a separate declaration, which must be provided within the year 2012. The declaration must be filled in for each product listed in Alko's selections and the information on the product's supply chain must be given on the same declaration form.

- The declaration form is available on Alko's website at www.alko.fi > For Suppliers > Blank-forms (BSCI declaration), and it must be sent to Alko undersigned.
- Suppliers using the Alko partner network must fill in the corresponding declaration form electronically starting from 2 January 2012. This form can be found under the heading BSCI Declaration.

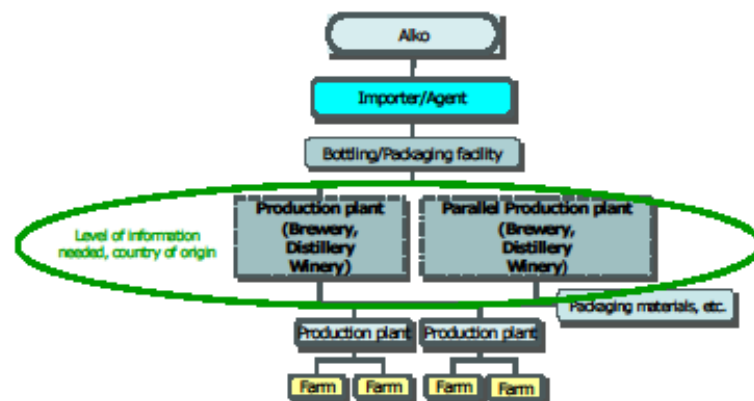
Producer information must be given indicating the production plants in the product's country of origin (brewery, distillery, winery). The following information is required: name, addresses and the contact person of the production plant as well as the number of employees in the plant.

By production plant we mean the production plant which is located in the product's country of origin and where the final, marketable product is made, not for instance a bottling plant located in some other country.

We recommend that you start to register the products listed in Alko's selections as soon as possible.

Below is an example of a possible supply chain and what should be reported to Alko. In all cases the supply chain is not as long as in this example.

For any questions you may have on this subject, please contact our purchasers.



Appendix 2 Pramia's social auditing form

Checklist for supplier's corporate social responsibility (CSR)

Please avoid answers such as "No available information" .Instead, describe the situation at hand.

1. Name of company:
2. Company address:
3. Contact person:
4. Email address:
5. Phone number
6. Operating in country/ countries:
7. Number of personnel:
8. Products supplied to Pramia
9. Number of sub-suppliers and producers:
10. Does your company have a CSR-policy, Code of conduct or other policies related to CSR matters (e.g. environmental, gender, equality, ethical or labour)?

☐ yes☐ no

If yes, please select which from the following list:

☐ UN Global Compact☐ ISO 9 000, 14 00 or other ISO standards☐ SA 8000☐ AA 1000☐ Investors in People☐ Ethical Trading Initiative (ETI) Base code☐ IFOAM Basic Standards (IBS)☐ Codex Alimentarius (WHO/FAO)☐ Business Social Compliance Initiative (BSCI)☐ Other, please specify:**PRAMIA OY**

info@pramia.fi

Ilvesjoentie 1060

61760 ILVESJOKI

tel +358 06 4565 600

11. Does your company have control of any knowledge of the circumstances under which your products and ingredients are produced (raw material to finished product)?
☐ yes
☐ no
12. Are on-site inspections to production sites made to ensure that CSR requirements are respected?
☐ yes
☐ no
If yes, how often?
Are there intentions to implement this in the future?
13. Are third party auditors used to inspect production sites to ensure that CSR requirements are respected?
☐ yes
☐ no
14. Does your company actively work with human rights?
☐ yes
☐ no
15. Do you have workers below the age of 15 years or less than the legal age of compulsory schooling?
☐ yes
☐ no
16. If so, do the tasks include (please tick if relevant):
☐ work during night-time
☐ hazardous work (i.e. dangerous machines or tools, chemicals or pesticides)
17. Are there mechanisms in place to control and verify workers/employees ages?
☐ yes
☐ no
18. Are there structures and systems in place to handle work place accidents, in your company and in your supply chain?
☐ yes
☐ no
19. Do all workers/employees have employment contracts?
☐ yes
☐ no
20. Are national minimum wages applied in your company and in your supply chain?
☐ yes
☐ no
21. Are workers paid for over-time?
☐ yes
☐ no
22. Are local regulations for annual leave, for both employed and contracted workers complied with?
☐ yes
☐ no
23. Is parental leave provided in your company and in your supply chain?
☐ yes
☐ no
24. Are workers informed of their labour rights?
☐ yes
☐ no



25. Is there any active labour union representation?

☐ yes

☐ no

26. Have workers taken any initiatives to join and/or start labour union activities?

☐ yes

☐ no

27. Is collective bargaining of e.g. salaries and working hours allowed?

☐ yes

☐ no

28. Is your company aware of any actual case of potential risks of discrimination on the basis of gender, religion, race, political opinion or social origin or any other reason?

☐ yes

☐ no

29. Does your company work actively with environmental issues?

☐ yes

☐ no

30. Can you provide accurate and complete reports for environmental permits and violations?

☐ yes

☐ no

31. Does your company have any programmes for energy conservation?

☐ yes

☐ no

32. Are there programmes to calculate and estimate emission of greenhouse gases, such as carbon footprint, disclosure etc?

☐ yes

☐ no

33. Are there systems in place to manage chemicals?

☐ yes

☐ no

34. Does your company have a waste management programme?

☐ yes

☐ no

35. Does your company manage hazardous waste?

☐ yes

☐ no

36. Have employees receives specific education regarding corruption?

☐ yes

☐ no

37. Does your company have control mechanisms, e.g. double attestation, to avoid corruption?

☐ yes

☐ no

Are there any future intentions to do so?

38. Is your company registered in the local property register as the owner of land and property?

☐ yes

☐ no





FINAL COMMENTS

39. What support does your company wish in order to fulfil CSR-requirements like the ones listed above?

- ☐ Training / education
- ☐ A Shared Code of Conduct
- ☐ Tools such as checklists, manuals etc
- ☐ Information on CSR to hand out to subcontractors and consumers
- ☐ Other, please specify

- ☐ None

40. Other information or notes

